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No. _____

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In The

Supreme Court of the United States

October Term, 1992

NINTENDO OF AMERICA INC.,

Petitioner,

v.

LEWIS GALOOB TOYS, INC.,

Respondent.

Petition For A Writ Of Certiorari To The United States Court Of Appeals For The Ninth Circuit

PETITION FOR A WRIT OF CERTIORARI

JOHN J. KIRBY, JR.
THOMAS G. GALLATIN, JR.*
ROBERT J. GUNTHER, JR.
MUDGE ROSE GUTHRIE ALEXANDER & FERDON
180 Maiden Lane
New York, New York 10038
Telephone: (212) 510-7000

WILLIAM E. TRAUTMAN
RICHARD R. WIEBE
BROBECK, PHLEGER & HARRISON
One Market Plaza
Spear Street Tower
San Francisco, California 94105
Telephone: (415) 442-0900

Attorneys for Petitioner Nintendo of America Inc.

*Counsel of Record

COCKLE LAW BRIEF PRINTING CO., (800) 225-6964
OR CALL COLLECT (402) 342-2831

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QUESTIONS PRESENTED

This case concerns the application of the derivative work provisions of the Copyright Act to works that are generated by computer from data and instructions embodied in digital information media. The Nintendo Entertainment System ("NES") is a computer that displays on an ordinary television set the sounds and images of Nintendo's copyrighted video game audiovisual works. The NES generates Nintendo's audiovisual works from computer program data and instructions contained in interchangeable game cartridges that plug into the NES.

Lewis Galoob Toys, Inc. makes a device called the Game Genie. When plugged into the NES in combination with one of Nintendo's game cartridges, the Game Genie creates a new and different version of Nintendo's preexisting audiovisual work. This altered audiovisual work is generated in part from computer program data and instructions contained in the game cartridge and in part from computer program data and instructions contained in the Game Genie.

In its decision in this case, the Ninth Circuit has created a judicial exception to a copyright owner's exclusive right under the Copyright Act to "authorize" or "to prepare derivative works based upon the copyrighted work." 17 U.S.C. § 106(2). The court found that the Game Genie was one of a number of new technical means that constituted "innovations [that would] rarely [] constitute infringing derivative works under the Copyright Act."

QUESTIONS PRESENTED – Continued

App. A-9. Essentially, the Ninth Circuit has found that altered audiovisual works created by computer peripheral devices are not protected derivative works under the Copyright Act.

The Ninth Circuit further found that even if the Game Genie created derivative works, the creation of those works was a fair use under 17 U.S.C. § 107. The effect of this ruling was to confer on Galoob the right to exploit a multi-million dollar market for peripheral devices that create derivative versions of Nintendo's copyrighted audiovisual works.

These exceptions to a copyright owner's exclusive statutory rights have profound impact on an area of enormous growth and importance. The effect of the decision is to define the rights of creators of digitally generated audiovisual works differently from the rights of all other creators of copyrightable works under the Copyright Act.

The questions presented are:

1. Is an altered version of a preexisting audiovisual work a derivative work if it is embodied a) in part in computer program data and instructions contained in a copy of the preexisting work and b) in part in different computer program data and instructions contained in a separate physical object?

2. Are the derivative audiovisual works created from Nintendo's copyrighted works by the Game Genie, for which there is a multi-million dollar market, a "fair use" of Nintendo's works?

TABLE OF CONTENTS

Page

QUESTIONS PRESENTED i

TABLE OF AUTHORITIES iv

OPINIONS BELOW 2

JURISDICTION 2

STATUTORY PROVISIONS INVOLVED 2

STATEMENT 2

REASONS FOR GRANTING THE PETITION 7

A. The Ninth Circuit's Novel And Unprecedented Definition Of "Derivative Work" Is Contrary To The Express Provisions Of The Copyright Act And Presents An Issue Of Exceptional Importance To The Emerging Computer Media Industry Which Should Be Settled By This Court 9

B. The Ninth Circuit's Novel And Unprecedented Definition Of "Derivative Work" Conflicts With A Long-standing Decision Of The Seventh Circuit That Had Previously Settled The Law In This Area 15

C. The Ninth Circuit's Holding That The Derivative Works Created By The Game Genie Are A Fair Use Of Nintendo's Preexisting Audiovisual Works Creates A Sweeping Fair Use Exception That Is Contrary To This Court's Decisions With Respect To Other Classes Of Copyrighted Works 17

CONCLUSION 25

TABLE OF AUTHORITIES

Page(s)

CASES:

Harper & Row Publishers, Inc. v. Nation Enterprises, 471 U.S. 539, 105 S.Ct. 2218, 85 L.Ed.2d 588 (1985) 17, 18, 19, 21, 23, 24

Midway Mfg. Co. v. Artic Int'l, Inc., 704 F.2d 1009 (7th Cir.), *cert. denied*, 464 U.S. 823 (1983) 8, 15

Midway Mfg. Co. v. Artic Int'l, Inc., 547 F.Supp. 999 (N.D.Ill. 1982), *aff'd*, 704 F.2d 1009 (7th Cir.), *cert. denied*, 464 U.S. 823 16

Sony Corp. v. Universal City Studios, Inc., 464 U.S. 417, 104 S.Ct. 774, 78 L.Ed.2d 574 (1984) 17, 18, 20, 22, 23, 24

Stewart v. Abend, 495 U.S. 207, 110 S.Ct. 1750, 109 L.Ed.2d 184 (1990) 17, 19, 23, 24

White-Smith Publishing Co. v. Apollo Co., 209 U.S. 1, 28 S.Ct. 319, 52 L.Ed. 655 (1908) 10, 13

STATUTES:

17 U.S.C.

§ 101 ..... 8, 9, 12

§ 102 9

§ 102(a) 12

§ 106 18

§ 106(1) 12, 18

§ 106(2) 8, 12, 18

§ 107 ..... 8, 17, 18, 19

§ 202 23

§ 501 7

TABLE OF AUTHORITIES – Continued

Page(s)

28 U.S.C.
§ 1254(1) 2
§ 1331 7
§ 1332 7
§ 1337 7
§ 1338 7

OTHER AUTHORITIES:

Ansen, *Like Father, Like Daughter*, NEWSWEEK, Aug. 5, 1991 13

H.R. REP. No. 1476, 94th Cong., 2d Sess., *reprinted in* 1976 U.S.C.C.A.N. 5659 ..... 10, 12, 13, 23

I P. Goldstein, COPYRIGHT § 5.3.1 at 574 (1989) 22

P. Goldstein, *Derivative Rights and Derivative Works in Copyright*, 30 J. Copyright Soc'y U.S.A. 209 (1983) 22

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PETITION FOR A WRIT OF CERTIORARI

Petitioner, Nintendo of America Inc.,[1] petitions for a writ of certiorari to review the judgment of the United States Court of Appeals for the Ninth Circuit.

[1] All parties who appeared below are listed in the above caption. Pursuant to Rule 29.1 of the Rules of this Court, petitioner Nintendo of America Inc. states that it is a wholly-owned subsidiary of Nintendo Co., Ltd., a Japanese corporation. Nintendo of America Inc. has no subsidiaries that are not wholly-owned.

OPINIONS BELOW

The opinion of the United States Court of Appeals for the Ninth Circuit, as amended, is reported at 964 F.2d 965. App. A. The United States District Court's opinion is reported at 780 F.Supp. 1283. App. B.

JURISDICTION

The initial judgment and opinion of the court of appeals was entered May 21, 1992. The amended opinion of the court of appeals was entered August 5, 1992 (App. A), and the order denying rehearing (App. C) was filed and entered on October 20, 1992. This Court's jurisdiction rests on 28 U.S.C. § 1254(1).

STATUTORY PROVISIONS INVOLVED

The relevant provisions of the Copyright Act, Title 17 U.S.C., involved in the case are reprinted at App. D.

STATEMENT

The Nintendo Entertainment System ("NES") is a home video game system marketed by Nintendo of America Inc. ("Nintendo") that enables Nintendo's video game audiovisual works to be displayed on an ordinary

television set. CR 192 at ¶¶ 5-6.[2] The NES includes a Control Deck, a unit about the size of a cereal box, which is attached by wires to the television and contains two digital processors: a central processing unit and a picture processing unit. *Id.* at ¶ 7; Ex. N-775. The NES also includes controller devices by which the game player interacts with the game. CR 192 at ¶¶ 13-14.

To display the sounds and images of a video game with the NES, it is necessary to plug an interchangeable game cartridge into the NES Control Deck. CR 192 at ¶¶ 9-10. The game cartridge, a plastic box about the size of a paperback book, contains the computer program from which the video game audiovisual work is generated. *Id.* The computer program data and instructions stored in the game cartridge, when processed by the computer processors in the Control Deck, determine the images and sounds displayed on the television screen. *Id.* at ¶¶ 7, 9-10.

The Game Genie is a device marketed by Lewis Galoob Toys, Inc. ("Galoob"). It is about the size of a cassette tape and contains a microprocessor and a computer memory. Ex. J-209. When in use, the Game Genie connects the game cartridge to the Control Deck. The game cartridge plugs into one end of the Game Genie; the other end of the Game Genie plugs into the game cartridge receptacle in the Control Deck. Ex. J-201 at 5-6; 4/29/91 RT 26:12-19. The user then programs various "codes" into the Game Genie, which the Game Genie stores in its computer memory. CR 192 ¶ 22; 4/29/91 RT 29:20-24, 30:1 to 32:19, 166:7-12, 170:24 to 171:2.

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[2] Citations to the district court clerk's record are given as "CR [number]." Citations to the district court transcript are given as "[date] RT [page and line numbers]." Citations to trial exhibits are given as "Ex. [exhibit number]."

By means of these codes, the Game Genie provides computer program data and instructions to the NES Control Deck. Exs. J-209 at 3; G-411 ¶ 108; 4/29/91 RT 31:14-23, 152:12-24, 168:6-17.

The effect of the data and instructions provided to the Control Deck by the Game Genie, in conjunction with the data and instructions provided by the game cartridge, is to alter the audiovisual display of the game from that which would occur with the game cartridge alone. 4/29/91 RT 7:6 to 8:1, 35:8 to 36:23.

With or without the use of the Game Genie, the sounds and images composing the audiovisual display are generated on the television set by the NES Control Deck from computer program data and instructions. In the case of the original, unaltered audiovisual work, the data and instructions come from the game cartridge. CR 192 ¶¶ 5-11; Ex. G-411 ¶¶ 88-101; 4/29/91 RT 124:12-20, 132:11 to 133:24, 135:25 to 137:19. In the case of the altered audiovisual works created by using the Game Genie, some of the computer program data and instructions come from the Game Genie and others come from the game cartridge. Exs. G-408 ¶¶ 15-18; G-411 ¶¶ 102-04, 108; 4/29/91 RT 8:11-22, 31:14 to 32:19, 35:4-7, 168:6-17.

In addition to the alterations noted by the Ninth Circuit in its decision, App. A-3, the Game Genie can create a wide variety of other changes to Nintendo's preexisting works. In the various altered versions of Nintendo's audiovisual works that it creates, the Game Genie:

- can change the appearance or colors of characters, objects, or background scenery,[3]

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[3] *See, e.g.*, Exs. N-789(A) at 2-3 (Super Mario Bros. code nos. 7, 12-14), 3 (Super Mario Bros. 2 code nos. 1, 2), 5 (Super Mario

- can cause characters and objects to move in ways not possible in the original work,[4]
- can change the locations within the game where various characters, objects, obstacles, and background scenery appear,[5]
- can change the conditions which cause a character or object to appear at a particular location in the game,[6]

Bros. 3 code no. 4); N-789(C) at 7 (Super Mario Bros. 2 code nos. 8, 10-12), 10-13 (Super Mario Bros. 3 code nos. 15, 17-22, 24-27, 32-33, 37-39); N-790(C) at 23-24 (Super Mario Bros. code nos. 1, 6), 25 (Super Mario Bros. 2 code nos. 1, 2, 4), 27-30 (Super Mario Bros. 3 code nos. 1, 5-7, 10, 12-14), 32 (Tetris code no. 2); N-800; 4/29/91 RT 35:12 to 36:23, 171:11 to 172:15.

[4] *See, e.g.*, Exs. N-789(A) at 2 (Super Mario Bros. code no. 4), 3 (Super Mario Bros. 2 code nos. 3-4), 4 (Super Mario Bros. 3 code no. 1); N-789(C) at 7 (Super Mario Bros. 2 code nos. 7, 12), 8, 10-12 (Super Mario Bros. 3 code nos. 1, 6, 19, 21, 27, 36); N-790(C) at 23 (Super Mario Bros. code nos. 1, 3, 5), 25-26 (Super Mario Bros. 2 code nos. 3, 6), 27, 31 (Super Mario Bros. 3 code nos. 2, 3, 18); N-800; CR 192 Ex. A at 11 (Ice Climber code no. 8), 21-22 (Super Mario Bros. code nos. 6-14), 25-26 (Super Mario Bros. 2 code nos. 3-12), 30-31 (Super Mario Bros. 3 code nos. 4-7, 9-10).

[5] *See, e.g.*, Exs. N-789(A) at 4-5 (Super Mario Bros. 3 code nos. 2-4); N-790(C) at 7 (Excitebike code no. 2), 21 (Slalom code no. 1), 23-24 (Super Mario Bros. code nos. 1, 6), 25 (Super Mario Bros. 2 code nos. 1-2), 28, 29, 31 (Super Mario Bros. 3 code nos. 8-12, 17); N-800; CR 192 Ex. A at 7 (Excitebike code no. 5), 9 (Gumshoe code no. 11), 28 (Super Mario Bros. 2 code nos. 28-29), 32-34 (Super Mario Bros. 3 code nos. 19-29, 33-38); 4/29/91 RT 170:15-18.

[6] *See, e.g.*, Exs. N-789(A) at 2 (Super Mario Bros. code no. 10), 4-5 (Super Mario Bros. 3 code no. 2); N-789(C) at 9-12 (Super Mario Bros. 3 code nos. 10-13, 16, 19, 25, 26, 28-31, 34); N-790(C) at 23-24 (Super Mario Bros. code nos. 2, 7), 25 (Super Mario Bros. 2 code no. 1), 28-29, 31 (Super Mario Bros. 3 code nos. 8-12, 17);

- can change the sounds and music produced during game play,[7]

- can edit and abridge the audiovisual sequences by starting play at locations other than at the beginning of the game and by changing the manner and sequence in which the player-controlled character passes through different areas of the game,[8] and

- can change the duration of the audiovisual work.[9]

All of the altered audiovisual displays created by the Game Genie incorporate large amounts of unaltered expression from Nintendo's preexisting audiovisual works. *See, e.g.*, CR 192 Ex. A; Exs. N-789(A); N-789(C); N-790(C); N-800.

N-800; CR 192 Ex. A at 23 (Super Mario Bros. code no. 15), 28 (Super Mario Bros. 2 code nos. 28-29), 32-34 (Super Mario Bros. 3 code nos. 19-29, 33-38).

[7] *See, e.g.*, Exs. N-789(A) at 2 (Super Mario Bros. code no. 11); N-790(C) at 23 (Super Mario Bros. code no. 4); N-800.

[8] *See, e.g.*, Exs. N-789(A) at 3 (Super Mario Bros. code nos. 12-15); N-789(C) at 2 (Mario Bros. code no. 1), 4 (Rad Racer code nos. 2, 4-5), 8, 10 (Super Mario Bros. 3 code nos. 5, 19), 14-15 (Zelda II code nos. 1, 4-5); N-790(C) at 19 (Rad Racer code no. 2), 29 (Super Mario Bros. 3 code no. 10); N-800; CR 192 Ex. A at 2 (Balloon Fight codes 7-9), 23-24 (Super Mario Bros. code nos. 16-22), 28-29 (Super Mario Bros. 2 code nos. 30-35), 31 (Super Mario Bros. 3 code nos. 11-17).

[9] *See, e.g.*, Exs. N-789(C) at 3 (Rad Racer code no. 1); N-790(C) at 21 (Slalom code no. 3), 22 (Soccer code nos. 3, 4); CR 192 Ex. A at 3 (Clu Clu Land code nos. 2, 5), 6 (Donkey Kong 3 code no. 4), 7 (Excitebike code nos. 6, 7), 9 (Gumshoe code nos. 9-10), 10 (Gyromite code no. 2), 36 (Urban Champion code nos. 1-2).

According to Galoob, there was a $150 million market for the Game Genie in 1990 and 1991 alone. CR 90 at 14 n.23, 15.

Galoob filed an action in the district court seeking a declaration that the marketing, sale, and use of the Game Genie did not infringe or contribute to the infringement of Nintendo's copyrighted audiovisual works. CR 1. Nintendo filed an action alleging that the marketing, sale, and use of the Game Genie infringed and contributed to the infringement of Nintendo's copyrighted audiovisual works. CR 1 in U.S. Dist. Ct. N.D. Cal. No. C-90-1586-FMS. The actions were consolidated. The district court had jurisdiction under 17 U.S.C. § 501, 28 U.S.C. §§ 1331, 1332, 1337 and 1338, and principles of pendent and ancillary jurisdiction. Nintendo moved for a preliminary injunction, which was granted. The preliminary injunction was affirmed by the Ninth Circuit Court of Appeals. After a bench trial, the district court vacated the preliminary injunction and held that the altered versions of Nintendo's audiovisual works created by the Game Genie were not derivative works or, alternatively, that the altered versions were a fair use of Nintendo's preexisting works. App. B. The Ninth Circuit affirmed, with two members of the panel joining in the opinion of the court, and the third member concurring in the judgment for different reasons. App. A.

REASONS FOR GRANTING THE PETITION

Among the rights secured to a copyright owner by the Copyright Act is the exclusive right "to authorize" or "to prepare derivative works based upon the copyrighted

work." 17 U.S.C § 106(2). The decision of the United States Court of Appeals for the Ninth Circuit in this case has created a judicial exception to this right with respect to computer media. In its decision, the Ninth Circuit applied a novel and narrow definition of "derivative work" that recognizes only those derivative works that are physically embodied in a particular "concrete" or "permanent" manner.

The Ninth Circuit's decision is contrary to Congress' very different definition of "derivative work" in the Copyright Act, 17 U.S.C. § 101, and to the statutory scheme of the Copyright Act as a whole. It also conflicts irreconcilably with the decision of the United States Court of Appeals for the Seventh Circuit in *Midway Mfg. Co. v. Artic Int'l, Inc.*, 704 F.2d 1009 (7th Cir.), *cert. denied*, 464 U.S. 823 (1983). This Court's review is necessary to decide the important question, affecting every copyright owner whose work is embodied in computer media, of the proper scope of the derivative work right and to resolve the conflict among the circuits.

Having circumscribed the definition of a protectable derivative work under the Copyright Act, the court then alternatively found that the fair use provisions of 17 U.S.C. § 107 permitted the mass marketing of altered versions of Nintendo's copyrighted works by Galoob. In doing so, the court construed this Court's prior fair use decisions with respect to different rights and types of works under the Copyright Act and vitiated important aspects of the derivative work rights conferred on a copyright owner by the Copyright Act with respect to derivative audiovisual works generated by computer. This Court's review is necessary to clarify the application of

the fair use defense in the important and growing context of computer-generated audiovisual works.

A. The Ninth Circuit's Novel And Unprecedented Definition Of "Derivative Work" Is Contrary To The Express Provisions Of The Copyright Act And Presents An Issue Of Exceptional Importance To The Emerging Computer Media Industry Which Should Be Settled By This Court

In the Copyright Act of 1976, Congress expressly defined a derivative work as "a work based upon one or more preexisting works, such as a translation, musical arrangement, dramatization, fictionalization, motion picture version, sound recording, art reproduction, abridgment, condensation, or any other form in which a work may be recast, transformed, or adapted." 17 U.S.C. § 101. While the definition of a derivative work requires that it incorporate both preexisting as well as changed elements of the copyrighted work, Congress intentionally set no limits on the nature of the physical objects in which works of authorship, original or derivative, could be embodied or "fixed." 17 U.S.C. § 102 (works of authorship may be embodied "in any tangible medium of expression"); 17 U.S.C. § 101 (definition of "fixed") (work is fixed when it is embodied in a copy from which it can be "perceived, reproduced, or otherwise communicated for a period of more than transitory duration").

In particular, Congress instructed that an audiovisual work is any "series of related images . . . together with accompanying sounds . . . regardless of the nature of the material objects . . . in which the work[] [is] embodied." 17 U.S.C. § 101 (definition of "audiovisual works"). In rejecting any limit on the manner or form in which a work may be

embodied in a physical object, Congress "intended to avoid the artificial and largely unjustifiable distinctions, derived from cases such as *White-Smith Publishing Co. v. Apollo Co.*, 209 U.S. 1 (1908), under which statutory copyrightability in certain cases has been made to depend upon the form or medium in which the work is fixed. Under the bill *it makes no difference what the form, manner, or medium of fixation may be. . . .*" H.R. REP. No. 1476, 94th Cong., 2d Sess. 52, *reprinted in* 1976 U.S.C.C.A.N. 5659, 5665 (emphasis added).

Contrary to these clear statutory commands, the Ninth Circuit in this case fashioned its own novel and unprecedented definition of a derivative work. In doing so, it found that the general definition of an audiovisual work in the Copyright Act, which explicitly placed no limits on the manner of embodiment, did not apply to *derivative* audiovisual works. The Ninth Circuit's position was deliberate. It was at pains to make clear that it rejected the statement of the law formulated by Nintendo that "a work can be a derivative work regardless of the nature of the material objects in which the work is embodied." App. A-8.

Instead, the Ninth Circuit held that a derivative work must not only incorporate changed elements of the copyrighted work, but also must "incorporate a portion of a copyrighted work in some concrete or permanent *form.*" App. A-6 (emphasis original). It applied this test to the facts of this case to hold that the altered audiovisual works created by the Game Genie were not derivative works because the computer program data and instructions used to generate them were not embodied solely in the Game Genie, but were embodied in part in the Game Genie and in part in the game cartridge. App. A-6, A-9. In short, it was the Ninth Circuit's view that there was no derivative work because the sounds and images of the altered audiovisual works were not

generated solely from a Game Genie that physically incorporated a portion of the sounds and images of the preexisting audiovisual work "in some concrete or permanent *form*." App. A-6 (emphasis original).

The Ninth Circuit's definition of derivative work in this case thus turns not on the elements of the altered work in question (i.e., the sounds and images of the altered audiovisual work and their relationship to the sounds and images of the preexisting audiovisual work), but the manner in which the altered work is created and embodied. If all of the computer program data and instructions that generate one of the altered audiovisual works at issue in this case had been embodied in a single physical object, the Ninth Circuit's test would have been satisfied. Because the data and instructions were embodied in part in the Game Genie and in part in a copy of the preexisting work (i.e., the game cartridge), the Ninth Circuit held that the altered audiovisual display was not a derivative work. App. A-6 to A-7. The analysis and the conclusion are flat wrong.

The Ninth Circuit's derivative work definition has eliminated the fundamental difference under the Copyright Act between a work and the physical objects that may embody it: " '[C]opies' and 'phonorecords' together will comprise all of the material objects in which copyrightable works are capable of being fixed. . . . [T]hese terms . . . reflect a fundamental distinction between the 'original work' . . . and the multitude of material objects in which it can be embodied. Thus, in the

sense of the bill, a 'book' is not a work of authorship, but is a particular kind of 'copy.' Instead, the author may write a 'literary work,' which in turn can be embodied in a wide range of 'copies' and 'phonorecords'. . . . It is possible to have an 'original work of authorship' without having a 'copy' or 'phonorecord' embodying it. . . . " H.R. REP. No. 1476, 94th Cong., 2d Sess. 53, *reprinted in* 1976 U.S.C.C.A.N. 5659, 5666.

A derivative work arises from a change to the form of the preexisting work, not from a change in the form of the physical object embodying the preexisting work. For example, Nat King Cole's performance of the song "Unforgettable" is a sound recording work.[10] The form of that work is identical and unchanged whether it is embodied in the spiral groove of a phonograph record, the magnetic waves of a cassette tape, or the digital pulses of a compact disc; only the physical form of the object embodying the work differs. While the creation of different physical forms of the same work might implicate the exclusive *copying* right under 17 U.S.C. § 106(1), it does not implicate the derivative work right under 17 U.S.C. § 106(2). When Nat King Cole's daughter, Natalie, recently overdubbed her voice onto her father's version to create a duet, however, she created a derivative work that changed the form of the original work, regardless of the physical objects in which that new work might be

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[10] "Sound recordings" are a statutory category of works which are embodied in physical objects known as "phonorecords." 17 U.S.C. §§ 101, 102(a).

embodied. *See* Ansen, *Like Father, Like Daughter*, NEWSWEEK, Aug. 5, 1991, at 50. Indeed, as Congress has recognized, a derivative work such as Natalie's duet could be created and recognized under the Copyright Act without being embodied in any physical object: "[T]he preparation of a derivative work, such as a ballet, pantomime, or improvised performance, may be an infringement even though nothing is ever fixed in tangible form." H.R. REP. No. 1476, 94th Cong., 2d Sess. 62, *reprinted in* 1976 U.S.C.C.A.N. 5659, 5675.[11]

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[11] The Ninth Circuit's decision in this case, requiring not only that a derivative work be physically embodied but that it be embodied in a particular type of "permanent" and "concrete" physical object, has resurrected the long-discredited rule of *White-Smith Publishing Co.*, once again making the question of a work's existence in the eyes of the copyright law turn on its embodiment in a particular physical form, manner, or medium. In *White-Smith*, the copyright owner of a song sued the maker of player piano rolls that reproduced the song when played. The Court held that, unlike sheet music, the piano rolls were not "copies within the meaning of the copyright act," but were "parts of a machine." *White-Smith Publishing Co. v. Apollo Co.*, 209 U.S. 1, 18, 28 S.Ct. 319, 52 L.Ed. 655 (1908). Justice Holmes, specially concurring, severely criticized the result and the then-contemporary state of copyright law in words that are equally applicable to the Ninth Circuit's decision in this case: "[T]he person to whom [a copyright] is given has invented some new collocation of visible or audible points, – of lines, colors, sounds, or words. . . . On principle anything that mechanically reproduces that collocation . . . ought to be held a copy. . . . " *Id.* at 19-20. Likewise, the existence of a derivative work should not turn on the nature of the objects from which it is mechanically reproduced. Until the Ninth Circuit's decision, Congress, the courts, and copyright owners thought that Justice Holmes's proposal had long since been adopted.

The effect of the Ninth Circuit's decision is to immunize certain derivative works from infringement liability solely because of the manner of their embodiment. For example, an altered audiovisual work identical to any of those created by the Game Genie could also be created by writing a new and original computer program which would incorporate elements of the original Nintendo work together with the Game Genie's alterations and embodying this program in a single game cartridge. 4/29/91 RT 32:20 to 33:6. That altered audiovisual work, in the eyes of the Ninth Circuit, would be a derivative work because it would be "concretely" and "permanently" embodied in a single physical object; however, the identical altered work, when embodied in the Game Genie-game cartridge combination, is not a derivative work. In short, the Ninth Circuit has conferred a compulsory license for derivative works in computer-generated media so long as those works are embodied in the judicially approved manner.

The Ninth Circuit's decision undermines the rights of a broad class of copyright owners extending far beyond the video game industry. With the rapid advent of computer technology, more and more copyrighted works of all description are being transferred from more traditional media (e.g., hardbound books, the oils and canvas of paintings, the paper of photographs, the celluloid of filmstrips) into digital information media (e.g., computer databases, CD-ROMs, laserdiscs). These digitally based works will be capable of easy alteration into derivative versions by electronic methods that, like the Game Genie, substitute new data and instructions for those present in the original version. The Ninth Circuit has made clear that its decision in this case is intended to be a blanket

immunization of all such electronically created derivative works. "Such innovations rarely will constitute infringing derivative works under the Copyright Act." App. A-9.

This Court has not heretofore addressed the question of the scope of the derivative work right granted by the Copyright Act or its application to works embodied in digital information media. Given its overriding importance to the rights of copyright holders, this Court's review is necessary to settle the now confused question of the proper construction of the derivative work right under the Copyright Act.

B. The Ninth Circuit's Novel And Unprecedented Definition Of "Derivative Work" Conflicts With A Long-standing Decision Of The Seventh Circuit That Had Previously Settled The Law In This Area

In addition, certiorari should be granted to resolve the circuit conflict between the decision in this case and the decision of the United States Court of Appeals for the Seventh Circuit in *Midway Mfg. Co. v. Artic Int'l, Inc.*, 704 F.2d 1009 (7th Cir.), *cert. denied*, 464 U.S. 823 (1983), which has long established the law in this area. *Midway* arose on strikingly similar facts. The plaintiff manufactured and sold a copyrighted arcade video game known as "Galaxian." The defendant sold an electronic circuit board for use in conjunction with the Galaxian video game sold by the plaintiff. When plugged into the Galaxian game, the add-on circuit board, like the Game Genie, altered the preexisting audiovisual work. It "speed[ed] up the rate of play – how fast the sounds and images change – of 'Galaxian.' " *Id.* at 1010.

Like the Game Genie, this add-on circuit board could not generate a video game by itself but could only modify the audiovisual display of an existing video game. *See Midway Mfg. Co. v. Artic Int'l, Inc.*, 547 F.Supp. 999, 1002, 1004 (N.D. Ill. 1982) (district court opinion). Like the Game Genie, the add-on circuit board, standing alone, also was not an audiovisual work, much less a copy of the plaintiff's Galaxian audiovisual work, because it did not contain and could not be used to recreate any of the images displayed on the screen during game play. *See id.* at 1002 (the "two 'character ROMs,' in which the computer programs necessary to create the shapes seen on the screen are stored," were located on the original video game's "motherboard," which the defendant's add-on circuit board plugged into), 1004. Like the Game Genie, the altered audiovisual work in *Midway* was generated in part from computer program instructions and data contained in the preexisting circuit board and in part from computer program data and instructions contained in the add-on circuit board. *See id.* at 1002, 1004.

The Seventh Circuit held, as the sole basis for finding that the Galaxian audiovisual work copyright was infringed, that the altered version of the video game created by use of the add-on circuit board was an infringing derivative audiovisual work: "[T]he speeded-up 'Galaxian' game that a licensee creates with a circuit board supplied by the defendant is a derivative work based upon 'Galaxian.' " *Midway*, 704 F.2d at 1013. This result is directly contrary to the result reached by the Ninth Circuit in this case, and the Court's review is required to resolve this conflict between the Seventh and Ninth Circuits.

C. The Ninth Circuit's Holding That The Derivative Works Created By The Game Genie Are A Fair Use Of Nintendo's Preexisting Audiovisual Works Creates a Sweeping Fair Use Exception That Is Contrary To This Court's Decisions With Respect To Other Classes Of Copyrighted Works

The Ninth Circuit's decision also held that, assuming the altered versions created by the Game Genie were derivative audiovisual works, those derivative works were a "fair use" of Nintendo's works under 17 U.S.C. § 107. The Ninth Circuit's fair use decision is contrary to this Court's decisions in *Stewart v. Abend*, 495 U.S. 207, 110 S.Ct. 1750, 109 L.Ed.2d 184 (1990), *Harper & Row Publishers, Inc. v. Nation Enterprises*, 471 U.S. 539, 105 Ct. 2218, 85 L.Ed.2d 588 (1985), and *Sony Corp. v. Universal City Studios, Inc.*, 464 U.S. 417, 104 S.Ct. 774, 78 L.Ed.2d 574 (1984). This Court's review is necessary to bring the law of the Ninth Circuit into accord with this Court's fair use decisions and to clarify the fair use doctrine as it applies to derivative audiovisual works embodied in digitally-based computer media.[12]

The defense of fair use, with its sweeping implications for a copyright owner's exclusive rights, requires

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[12] This Court decides the question of fair use as a matter of law:

> Where the district court has found facts sufficient to evaluate each of the statutory factors, an appellate court "need not remand for further factfinding . . . [but] may conclude as a matter of law that [the challenged use] do[es] not qualify as a fair use of the copyrighted work."

Harper & Row, 471 U.S. at 560 (bracketed material original, citation omitted).

careful delineation in order not to become an *ad hoc* exception to those rights that varies unpredictably across the different classes of copyrighted works and the different exclusive rights established by the Copyright Act. The Ninth Circuit's analysis of fair use in this case purports to rely principally on this Court's landmark decision in *Sony*. *Sony*, however, did not deal with the doctrine of fair use as it applies to the creation of derivative audiovisual works. It analyzed the fair use exception as it applies to the reproduction right under 17 U.S.C. § 106(1). This Court has not previously had occasion to address the question of fair use as it applies to computer-generated derivative audiovisual works. The Court has, however, recognized in *Harper & Row* that fair use with respect to derivative *literary* works requires a substantially different analysis from that applied to the home copying that was at issue in *Sony*. The difference between these two analyses was lost in this case.

The Ninth Circuit's analysis of three of the four statutory fair use factors listed in 17 U.S.C. § 107 ignored important differences between the exclusive rights with respect to "derivative works" under 17 U.S.C. § 106(2), as distinct from the exclusive rights with respect to reproductions under section 106(1).[13] *Sony* dealt only with

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[13] The statutory fair use factors are:

(1) The purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes;

(2) The nature of the copyrighted work;

(3) The amount and substantiality of the portion used in relation to the copyrighted work as a whole; and

(4) The effect of the use upon the potential market for or value of the copyrighted work.

consumers' reproductions of copyrighted works for "time shifting" in the home. The Ninth Circuit's failure to understand that different considerations are implicated by the creation of unauthorized derivative works led to a gross distortion of the statutory factors for determining fair use where Galoob has appropriated to itself the right to exploit a mass market for derivatives of Nintendo's copyrighted audiovisual works.

The " 'most important, and indeed, central fair use factor,' " *Stewart v. Abend*, 495 U.S. at 238 (citation omitted), is the harm caused to the copyright owner's interest in both the market for derivative works as well as the market for the preexisting audiovisual works. *See* 17 U.S.C. § 107; *Harper & Row*, 471 U.S. at 568 (inquiry under this factor "must take account not only of harm to the original but also of harm to the market for derivative works"). In this case, the most direct market injury caused by the Game Genie is the harm to the market for the derivative works that are created by the Game Genie itself. The Game Genie and the derivative works it creates have entirely supplanted this market, which is within Nintendo's exclusive derivative work rights under the Copyright Act; anyone desiring those derivative works purchases a Game Genie from Galoob, not Nintendo. The harm caused by the supplantation of this derivative works market (which Galoob itself estimates to have a

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17 U.S.C. § 107. The Ninth Circuit's holding that the second statutory fair use factor (the nature of the work) weighed against a finding of fair use because Nintendo's audiovisual works are fanciful creative works (App. A-17) is correct. *See Stewart v. Abend*, 495 U.S. 207, 237-38 (1990).

value of $150 million in 1990 and 1991 alone) is beyond dispute.

The Ninth Circuit's reliance on *Sony* in analyzing the harm to Nintendo as well as the character of the use in creating derivative works is misplaced. At issue in *Sony* was the right to reproduce copies of the copyrighted work, not the right to create derivative works. Videotape recorder owners were "time-shifting" publicly broadcast television programs by recording them temporarily for a single viewing at a later time. *Sony*, 464 U.S. at 422-23. What made the time-shifting in *Sony* a nonprofit (and presumptively fair) use was not its locus in the home or its private nature. Rather, it was the fact that "time-shifting merely enables a viewer to see such a work which he had been invited to witness in its entirety free of charge." *Id.* at 449. The time-shifting did not deprive the copyright holder of anything he had not already given away by broadcasting the free public performance of the work. "[T]he time-shifter no more steals the program by watching it *once* than does the live viewer. . . . " *Id.* at 450 n.33 (emphasis added). Because the time-shifter does not take anything from the copyright holder that the time-shifter would otherwise be obligated to pay the copyright holder for, the Court characterized this use as a fair use. *Id.* at 449.

By contrast, Nintendo has not invited anyone to make derivative works from its audiovisual works. The Game Genie user who makes derivative versions of Nintendo's audiovisual works is appropriating from Nintendo its derivative work rights for which the user would otherwise have to pay Nintendo.

The Court has made clear in the literary work context that there can be no fair use where unauthorized derivative works have caused injury by supplanting a valuable market for those derivative works. *See Harper & Row*, 471 U.S. at 568 (a use that " 'adversely affects the value of any of the rights in the copyrighted work' " (citation omitted) is not fair use). The Ninth Circuit, however, has now held in the audiovisual work context that the Game Genie caused no market injury to Nintendo's derivative work rights since there could be no supplanted market for the derivative works the Game Genie creates when Nintendo had not yet entered that market. App. A-15 to A-17.

The Ninth Circuit's refusal to recognize any harm to the derivative works market stemmed from its failure to identify correctly the derivative works that were at issue in this case: *i.e.*, those created by the Game Genie, not those that Nintendo might choose to create and market itself. Indeed, whether or not Nintendo *ever* chooses to enter this market itself is irrelevant to the fair use analysis because Nintendo retains the exclusive right to do so. *See Harper & Row*, 471 U.S. at 564 (copyright owner's right "encompasses not only the choice whether to publish at all, but also the choices of when, where, and in what form first to publish a work"). The Ninth Circuit's refusal to consider and accord any weight in its fair use analysis to the market for those derivative audiovisual works that are created by the Game Genie is seriously in conflict with principles of fair use announced by this

Court in *Harper & Row*; principles that should apply to all classes of copyrighted works.[14]

The Ninth Circuit's holdings with respect to the first and third statutory fair use factors are similarly foreclosed by this Court's prior decisions and the Copyright Act. With respect to the first statutory factor (purpose and character of the use), the Ninth Circuit cited to *Sony* and held that because Game Genie users did not resell the derivative works created by the Game Genie, they were engaged in a "non-profit activity" that made their use "presumptively fair." App. A-12. Whether an infringing use is commercial or nonprofit, however, does not turn on "whether the sole motive of the use is monetary gain but

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[14] The Ninth Circuit's decision with respect to determining the existence of a derivative work also lost sight of the difference between the markets for the original and the derivative works at issue in this case. The Ninth Circuit held that an altered version of a preexisting work is not a derivative work unless, in addition to being embodied in a "permanent" and "concrete" form, it supplants the demand for the preexisting work. App. A-7, A-9. This additional test has no statutory basis and no logical coherence. Few derivative works will be able to meet it, for it is the hallmark of a derivative work that it appeals to a different market than the preexisting work, and thus does not directly supplant demand for the preexisting work. As one noted copyright scholar puts it, the derivative work right begins at "that point at which the contribution of independent expression to an existing work effectively creates a new work for a *different* market." P. Goldstein, *Derivative Rights and Derivative Works in Copyright*, 30 J. Copyright Soc'y U.S.A. 209, 217 (1983) (emphasis added); *see also* I P. Goldstein, COPYRIGHT §5.3.1 at 574 (1989). This Court's review is necessary to correct this erroneous "market-supplanting" derivative work test as well, a test that eviscerates the commercial value of a copyright holder's derivative work rights.

whether the user stands to profit from exploitation of the copyrighted material without paying the customary price" to the copyright owner. *Harper & Row*, 471 U.S. at 562. Here, the taking of Nintendo's commercially valuable derivative work rights without any compensation to Nintendo makes the Game Genie's derivative versions a profitable and presumptively unfair use and distinguishes this case from the fair use time-shifting the Court approved in *Sony*.

With respect to the third statutory fair use factor (amount and substantiality of the portion of the copyrighted work used), the Ninth Circuit held that "the fact that the derivative works created by the Game Genie are comprised almost entirely of Nintendo's copyrighted displays does not militate against a finding of fair use." App. A-13 to A-14. The Ninth Circuit's refusal to accord any weight at all in its fair use analysis to the magnitude of these admittedly massive appropriations of Nintendo's preexisting creative works is contrary both to the Copyright Act and to the Court's holding in *Stewart v. Abend*, 495 U.S. at 238, that a substantial taking of a creative work weighs against fair use.[15]

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[15] The Ninth Circuit's suggestion that, having purchased copies of Nintendo's preexisting audiovisual works, consumers have acquired as well the right to create "enjoyable" derivative works (App. A-13 to A-14) is contrary both to the Copyright Act and this Court's decision in *Stewart v. Abend*.

Congress has expressly provided in section 202 of the Copyright Act that the sale of a copy does not create an implied license to create derivative works: "Transfer of ownership of any material object . . . does not of itself convey any rights in the copyrighted work embodied in the object. . . . " 17 U.S.C. § 202; *see also* H.R. REP. No. 1476, 94th Cong., 2d Sess. 124, *reprinted in* 1976 U.S.C.C.A.N. 5659, 5739 ("The principle restated in section

The Ninth Circuit's fair use analysis in this case seriously misapplies *Sony* and largely ignores important aspects of this Court's subsequent decisions in *Stewart v. Abend* and *Harper & Row* that provide guidance as to how to analyze the fair use doctrine in the context of derivative audiovisual works. The effect of the decision is largely to vitiate the derivative work right as it applies to computer-generated audiovisual works. In so doing, the Ninth Circuit's decision in this case stands on their heads the fair use principles carefully developed by this Court over the past decade and ignores the unique considerations that arise in analyzing the fair use defense as it relates to derivative works. This Court's review is necessary to reestablish these principles in the context of computer-generated derivative audiovisual works as the law of the Ninth Circuit, one of the most important copyright jurisdictions.

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202 is a fundamental and important one: that copyright ownership and ownership of a material object in which the copyrighted work is embodied are entirely separate things. Thus, transfer of a material object does not of itself carry any rights under the copyright . . . .").

This Court has likewise upheld this principle: "So long as the pre-existing work remains out of the public domain, its use [in a derivative work] is infringing if one who employs the work does not have a valid license or assignment for use of the pre-existing work." *Stewart v. Abend*, 495 at 223.

CONCLUSION

The petition for a writ of certiorari should be granted.

Dated: January 19, 1993.

Respectfully submitted,

JOHN J. KIRBY, JR.
THOMAS G. GALLATIN, JR.*
ROBERT J. GUNTHER, JR.
MUDGE ROSE GUTHRIE
ALEXANDER & FERDON
180 Maiden Lane
New York, New York 10038
Telephone: (212) 510-7000

WILLIAM E. TRAUTMAN
RICHARD R. WIEBE
BROBECK, PHLEGER & HARRISON
One Market Plaza
Spear Street Tower
San Francisco, California 94105
Telephone: (415) 442-0900

Attorneys for Petitioner
Nintendo of America Inc.

*Counsel of Record

APPENDIX A

FOR PUBLICATION

UNITED STATES COURT OF APPEALS
FOR THE NINTH CIRCUIT

LEWIS GALOOB TOYS, INC., *Plaintiff-Appellee,* v. NINTENDO OF AMERICA, INC., *Defendant-Appellant.*	No. 91-16205 D.C. No. CV-90-1586 FMS AMENDED OPINION
Nintendo of America, Inc., *Plaintiff-Appellant,* v. LEWIS GALOOB TOYS, INC., *Defendant-Appellee.*	D.C. No. CV-90-1440 FMS OPINION

Appeal from the United States District Court
for the Northern District of California
Fern M. Smith, District Judge, Presiding

Argued and Submitted
March 12, 1992 – San Francisco, California

Filed May 21, 1992
Amended August 5, 1992

Before: Jerome Farris and Pamela Ann Rymer, Circuit Judges, and David V. Kenyon,* District Judge.

Opinion by Judge Farris

COUNSEL

Thomas G. Gallatin, Jr., Mudge, Rose, Guthrie, Alexander & Ferdon, New York, New York, for the defendant-appellant.

Jerome B. Falk, Jr., Howard, Rice, Nemerovski, Canady, Robertson & Falk, San Francisco, California, for the plaintiff-appellees.

OPINION

FARRIS, Circuit Judge:

Nintendo of America appeals the district court's judgment following a bench trial (1) declaring that Lewis Galoob Toys' Game Genie does not violate any Nintendo copyrights and dissolving a temporary injunction and (2) denying Nintendo's request for a permanent injunction enjoining Galoob from marketing the Game Genie. *Lewis Galoob Toys, Inc. v. Nintendo of America, Inc.*, 780 F. Supp.

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*Honorable David V. Kenyon, United States District Judge for the Central District of California, sitting by designation.

1283 (N.D. Cal. 1991). We have appellate jurisdiction pursuant to 15 U.S.C. § 1121 and 28 U.S.C. §§ 1291 and 1292(a)(1). We affirm.

FACTS

The Nintendo Entertainment System is a home video game system marketed by Nintendo. To use the system, the player inserts a cartridge containing a video game that Nintendo produces or licenses others to produce. By pressing buttons and manipulating a control pad, the player controls one of the game's characters and progresses through the game. The games are protected as audiovisual works under 17 U.S.C. § 102(a)(6).

The Game Genie is a device manufactured by Galoob that allows the player to alter up to three features of a Nintendo game. For example, the Game Genie can increase the number of lives of the player's character, increase the speed at which the character moves, and allow the character to float above obstacles. The player controls the changes made by the Game Genie by entering codes provided by the Game Genie Programming Manual and Code Book. The player also can experiment with variations of these codes.

The Game Genie functions by blocking the value for a single data byte sent by the game cartridge to the central processing unit in the Nintendo Entertainment System and replacing it with a new value. If that value controls the character's strength, for example, then the character can be made invincible by increasing the value sufficiently. The Game Genie is inserted between a game cartridge and the Nintendo Entertainment System. The

Game Genie does not alter the data that is stored in the game cartridge. Its effects are temporary.

DISCUSSION

1. *Derivative work*

The Copyright Act of 1976 confers upon copyright holders the exclusive right to prepare and authorize others to prepare derivative works based on their copyrighted works. *See* 17 U.S.C. § 106(2). Nintendo argues that the district court erred in concluding that the audiovisual displays created by the Game Genie are not derivative works. The court's conclusions of law are reviewed *de novo*. *See Rozay's Transfer v. Local Freight Drivers, Local 208*, 850 F.2d 1321, 1326 (9th Cir. 1988), *cert. denied*, 490 U.S. 1030 (1989). Its findings of fact are reviewed for clear error. *See id.*

A derivative work must incorporate a protected work in some concrete or permanent "form." The Copyright Act defines a derivative work as follows:

> A "derivative work" is a work based upon one or more preexisting works, such as a translation, musical arrangement, dramatization, fictionalization, motion picture version, sound recording, art reproduction, abridgment, condensation, *or any other form in which a work may be recast, transformed, or adapted.* A work consisting of editorial revisions, annotations, elaborations, or other modifications which, as a whole, represent an original work of authorship, is a "derivative work."

17 U.S.C. § 101 (emphasis added). The examples of derivative works provided by the Act all physically incorporate the underlying work or works. The Act's legislative history similarly indicates that "the infringing work must incorporate a portion of the copyrighted work in some form." 1976 U.S. Code Cong. & Admin. News 5659, 5675. *See also Mirage Editions, Inc. v. Albuquerque A.R.T. Co.*, 856 F.2d 1341, 1343-44 (9th Cir. 1988) (discussing same), *cert. denied*, 489 U.S. 1018 (1989).

Our analysis is not controlled by the Copyright Act's definition of "fixed." The Act defines copies as "material objects, other than phonorecords, in which a work is *fixed* by any method." 17 U.S.C. § 101 (emphasis added). The Act's definition of "derivative work," in contrast, lacks any such reference to fixation. *See id.* Further, we have held in a copyright infringement action that "[i]t makes no difference that the derivation may not satisfy certain requirements for statutory copyright registration itself." *Lone Ranger Television v. Program Radio Corp.*, 740 F.2d 718, 722 (9th Cir. 1984). *See also* Paul Goldstein, *Derivative Rights and Derivative Works in Copyright*, 30 J. Copyright Soc'y U.S.A. 209, 231 n.75 (1983) ("the Act does not require that the derivative work be protectable for its preparation to infringe"). *Cf. Kalem Co. v. Harper Bros.*, 222 U.S. 55, 61 (1911) (finding the movie "Ben Hur" infringed copyright in the book *Ben Hur* even though Copyright Act did not yet include movies as protectable works). A derivative work must be fixed to be *protected* under the Act, *see* 17 U.S.C. § 102(a), but not to *infringe*.

The argument that a derivative work must be fixed because "[a] 'derivative work' is a work," 17 U.S.C. § 101, and "[a] work is 'created' when it is fixed in a copy or

phonorecord for the first time," *id.*, relies on a misapplication of the Copyright Act's definition of "created":

> A work is 'created' when it is fixed in a copy or phonorecord for the first time; where a work is prepared over a period of time, the portion of it that has been fixed at any particular time constitutes the work as of that time, and where the work has been prepared in different versions, each version constitutes a separate work.

Id. The definition clarifies the *time* at which a work is *created*. If the provision were a definition of "work," it would not use that term in such a casual manner. The Act does not contain a definition of "work." Rather, it contains specific definitions: "audiovisual works," "literary works," and "pictorial, graphic and sculptural works," for example. The definition of "derivative work" does not require fixation.

The district court's finding that no independent work is created, *see Galoob*, 780 F. Supp. at 1291, is supported by the record. The Game Genie merely enhances the audiovisual displays (or underlying data bytes) that originate in Nintendo game cartridges. The altered displays do not incorporate a portion of a copyrighted work in some concrete or permanent *form*. Nintendo argues that the Game Genie's displays are as fixed in the hardware and software used to create them as Nintendo's original displays. Nintendo's argument ignores the fact that the Game Genie cannot produce an audiovisual display; the underlying display must be produced by a Nintendo Entertainment System and game cartridge. Even if we were to rely on the Copyright Act's definition of "fixed,"

we would similarly conclude that the resulting display is not "embodied," *see* 17 U.S.C. § 101, in the Game Genie. It cannot be a derivative work.

Mirage Editions is illustrative. Albuquerque A.R.T. transferred artworks from a commemorative book to individual ceramic tiles. *See Mirage Editions*, 856 F.2d at 1342. We held that "[b]y borrowing and mounting the preexisting, copyrighted individual art images without the consent of the copyright proprietors . . . [Albuquerque A.R.T.] has prepared a derivative work and infringed the subject copyrights." *Id.* at 1343. The ceramic tiles *physically* incorporated the copyrighted works in a form that could be sold. Perhaps more importantly, sales of the tiles supplanted purchasers' demand for the underlying works. Our holding in *Mirage Editions* would have been much different if Albuquerque A.R.T. had distributed lenses that merely enabled users to view several artworks simultaneously.

Nintendo asserted at oral argument that the existence of a $150 million market for the Game Genie indicates that its audiovisual display must be fixed. We understand Nintendo's argument; consumers clearly would not purchase the Game Genie if its display was not "sufficiently permanent or stable to permit it to be perceived . . . for a period of more than transitory duration." 17 U.S.C. § 101. But, Nintendo's reliance on the Copyright Act's definition of "fixed" is misplaced. Nintendo's argument also proves too much; the existence of a market does not, and cannot, determine conclusively whether a work is an infringing derivative work. For example, although there is a market for kaleidoscopes, it does not necessarily follow that kaleidoscopes create unlawful derivative

works when pointed at protected artwork. The same can be said of countless other products that enhance, but do not replace, copyrighted works.

Nintendo also argues that our analysis should focus exclusively on the audiovisual displays created by the Game Genie, *i.e.*, that we should compare the altered displays to Nintendo's original displays. Nintendo emphasizes that " '[a]udiovisual works' are works that consist of a series of related images . . . *regardless of the nature of the material objects . . . in which the works are embodied.*" 17 U.S.C. § 101 (emphasis added). The Copyright Act's definition of "audiovisual works" is inapposite; the *only* question before us is whether the audiovisual displays created by the Game Genie are "derivative works." The Act does not similarly provide that a work can be a derivative work regardless of the nature of the material objects in which the work is embodied. A derivative work must incorporate a protected work in some concrete or permanent form. We cannot ignore the actual source of the Game Genie's display.

Nintendo relies heavily on *Midway Mfg. Co. v. Artic Int'l, Inc.*, 704 F.2d 1009 (7th Cir.), *cert. denied*, 464 U.S. 823 (1983). *Midway* can be distinguished. The defendant in *Midway*, Artic International, marketed a computer chip that could be inserted in Galaxian video games to speed up the rate of play. The Seventh Circuit held that the speeded-up version of Galaxian was a derivative work. *Id.* at 1013-14. Artic's chip substantially copied and *replaced* the chip that was originally distributed by Midway. Purchasers of Artic's chip also benefited economically by offering the altered game for use by the general

public. The Game Genie does not physically incorporate a portion of a copyrighted work, nor does it supplant demand for a component of that work. The court in *Midway* acknowledged that the Copyright Act's definition of "derivative work" "must be stretched to accommodate speeded-up video games." *Id.* at 1014. Stretching that definition further would chill innovation and fail to protect "society's competing interest in the free flow of ideas, information, and commerce." *Sony Corp. of America v. Universal Studios, Inc.*, 464 U.S. 417, 429 (1984).

In holding that the audiovisual displays created by the Game Genie are not derivative works, we recognize that technology often advances by improvement rather than replacement. *See* Christian H. Nadan, Note, *A Proposal to Recognize Component Works: How a Teddy Bears on the Competing Ends of Copyright Law*, 78 Cal. L. Rev. 1633, 1635 (1990). Some time ago, for example, computer companies began marketing spell-checkers that operate within existing word processors by signalling the writer when a word is misspelled. These applications, as well as countless others, could not be produced and marketed if courts were to conclude that the word processor and spell-checker combination is a derivative work based on the word processor alone. The Game Genie is useless by itself. It can only enhance, and cannot duplicate or recast, a Nintendo game's output. It does not contain or produce a Nintendo game's output in some concrete or permanent form, nor does it supplant demand for Nintendo game cartridges. Such innovations rarely will constitute infringing derivative works under the Copyright Act. *See generally* Nadan, *supra*, at 1667-72.

2. *Fair use*

"The doctrine of fair use allows a holder of the privilege to use copyrighted material in a reasonable manner without the consent of the copyright owner." *Narell v. Freeman*, 872 F.2d 907, 913 (9th Cir. 1989) (citations omitted). The district court concluded that, even if the audiovisual displays created by the Game Genie are derivative works, Galoob is not liable under 17 U.S.C. § 107 because the displays are a fair use of Nintendo's copyrighted displays. "Whether a use of copyrighted material is a 'fair use' is a mixed question of law and fact. If the district court found sufficient facts to evaluate each of the statutory factors, the appellate court may decide whether defendants may claim the fair use defense as a matter of law." *Abend v. MCA, Inc.*, 863 F.2d 1465, 1468 (9th Cir. 1988), *aff'd sub nom. Stewart v. Abend*, 495 U.S. 207 (1990).

Section 107 codifies the fair use defense:

> In determining whether the use made of a work in any particular case is a fair use the factors to be considered shall include –
>
> (1) the purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes;
>
> (2) the nature of the copyrighted work;
>
> (3) the amount and substantiality of the portion used in relation to the copyrighted work as a whole;
>
> (4) the effect of the use upon the potential market for or value of the copyrighted work.

The factors are nonexclusive, *see Fisher v. Dees*, 794 F.2d 432, 435 (9th Cir. 1986), and section 107 does not indicate how much weight should be ascribed to each.

Much of the parties' dispute regarding the fair use defense concerns the proper focus of the court's inquiry: (1) Galoob or (2) consumers who purchase and use the Game Genie. Nintendo's complaint does not allege direct infringement, nor did it try the case on that theory. The complaint, for example, alleges only that "Galoob's marketing advertising [sic], promoting and selling of Game Genie has and will *contribute to* the creation of infringing derivatives of Nintendo's copyrighted . . . games." (emphasis added). Contributory infringement is a form of third party liability. *See* Melville B. Nimmer & David Nimmer, 3 *Nimmer on Copyright* § 12.04[A][2], at 12-68 (1991). The district court properly focused on whether consumers who purchase and use the Game Genie would be infringing Nintendo's copyrights by creating (what are now assumed to be) derivative works.

Nintendo emphasizes that the district court ultimately addressed its direct infringement by authorization argument. The court concluded that, "[b]ecause the Game Genie does not create a derivative work when used in conjunction with a copyrighted video game, Galoob does not 'authorize the use of a copyrighted work without the actual authority from the copyright owner.' " *Galoob*, 780 F. Supp. at 1298 (quoting *Sony*, 464 U.S. at 435 n.17). Although infringement by authorization is a form of direct infringement, this does not change the proper focus of our inquiry; a party cannot authorize another party to infringe a copyright unless the authorized conduct would itself be unlawful.

Nintendo disputes this conclusion. According to Nintendo, a party can unlawfully authorize another party to use a copyrighted work even if that party's use of the work would not violate the Copyright Act. Nintendo's argument is unpersuasive. In *Sony*, 464 U.S. at 449, for example, the Court considered whether *consumers* were using the Betamax for a commercial or noncommercial purpose even though Sony itself obviously was acting in its own commercial self-interest. Professor Nimmer similarly concludes that, "to the extent that an activity does not violate one of those five enumerated rights [*see* 17 U.S.C. § 106], authorizing such activity does not constitute copyright infringement." 3 *Nimmer on Copyright* § 12.04[A][3][a], at 12-80 n.82.

The district court concluded that "a family's use of a Game Genie for private home enjoyment must be characterized as a non-commercial, nonprofit activity." *Galoob*, 780 F. Supp. at 1293. Nintendo argues that Game Genie users are supplanting its commercially valuable right to make and sell derivative works. Nintendo's reliance on *Harper & Row Publishers, Inc. v. Nation Enters.*, 471 U.S. 539, 562 (1985), is misplaced. The commercially valuable right at issue in *Harper & Row* was the right of first publication; Nation Enterprises intended to publish the copyrighted materials *for profit*. *See id.* at 562-63. *See also Sony*, 464 U.S. at 449 ("If the Betamax were used to make copies for a commercial or profit-making purpose, such use would presumptively be unfair."). Game Genie users are engaged in a non-profit activity. Their use of the Game Genie to create derivative works therefore is presumptively fair. *See Sony*, 464 U.S. at 449.

The district court also concluded that "[t]he [Nintendo] works' published nature supports the fairness of the use." *Galoob*, 780 F. Supp. at 1293. Nintendo argues that it has not published the derivative works created by the Game Genie. This argument ignores the plain language of section 107: "the factors to be considered shall include . . . the nature of the *copyrighted* work." The argument also would make the fair use defense unavailable in all cases of derivative works, including "criticism, comment, news reporting, teaching . . . , scholarship, or research." 17 U.S.C. § 107. A commentary that incorporated large portions of *For Whom the Bell Tolls* for example, would be undeserving of fair use protection because the incorporated portions would constitute an unpublished derivative work. This cannot be the law.

The district court further concluded that the amount of the portion used in relation to the copyrighted work as a whole "cannot assist Nintendo in overcoming the presumption of fair use." *Galoob*, 780 F. Supp. at 1293. The video tape recorders at issue in *Sony* allowed consumers to tape copyrighted works in their entirety. The Supreme Court nevertheless held that, "when one considers . . . that [video tape recording] merely enables a viewer to see such a work which he had been invited to witness in its entirety free of charge, the fact that the entire work is reproduced does not have its ordinary effect of militating against a finding of fair use." 464 U.S. at 449-50 (citations omitted). Consumers are not invited to witness Nintendo's audiovisual displays free of charge, but, once they have paid to do so, the fact that the

derivative works created by the Game Genie are comprised almost entirely of Nintendo's copyrighted displays does not militate against a finding of fair use.

Nintendo would distinguish *Sony* because it involved copying copyrighted works rather than creating derivative works based on those works. In other words, the consumers in *Sony* could lawfully copy the copyrighted works because they were invited to view those works free of charge. Game Genie users, in contrast, are not invited to view derivative works based on Nintendo's copyrighted works without first paying for that privilege. *Sony* cannot be read so narrowly. It is difficult to imagine that the Court would have reached a different conclusion if Betamax purchasers were skipping portions of copyrighted works or viewing denouements before climaxes. *Sony* recognizes that a party who distributes a copyrighted work cannot dictate how that work is to be enjoyed. Consumers may use a Betamax to view copyrighted works at a more convenient time. They similarly may use a Game Genie to enhance a Nintendo Game cartridge's audiovisual display in such a way as to make the experience more enjoyable.

"The fourth factor is the 'most important, and indeed, central fair use factor.' " *Stewart*, 495 U.S. at 238 (quoting 3 *Nimmer on Copyright* § 13.05[A], at 13-81). The district court concluded that "Nintendo has failed to show any harm to the present market for its copyrighted games and has failed to establish the reasonable likelihood of a potential market for slightly altered versions of the games at suit." *Galoob*, 780 F. Supp. at 1295. Nintendo's main argument on appeal is that the test for

market harm encompasses the potential market for derivative works. Because the Game Genie is used for a non-commercial purpose, the likelihood of future harm may not be presumed. *See Sony,* 464 U.S. at 451. Nintendo must show "by a preponderance of the evidence that *some* meaningful likelihood of future harm exists." *Id.* (emphasis supplied).

Nintendo's argument is supported by case law. Although the Copyright Act requires a court to consider "the effect of the use upon the potential market for or value of the *copyrighted work,*" 17 U.S.C. § 107(4) (emphasis added), we held in *Abend* that "[a]lthough the motion picture will have no adverse effect on bookstore sales of the [underlying] novel – and may in fact have a beneficial effect – it is 'clear that [the film's producer] may not invoke the defense of fair use.' " 863 F.2d at 1482 (quoting 3 *Nimmer on Copyright* § 13.05[B], at 13-84). We explained: " 'If the defendant's work adversely affects the value of any of the rights in the copyrighted work . . . the use is not fair even if the rights thus affected have not as yet been exercised by the plaintiff.' " *Id.* (quoting 3 *Nimmer on Copyright* § 13.05[B], at 13-84 to 13-85 (footnotes omitted)). The Supreme Court specifically affirmed our finding that the motion picture adaptation "impinged on the ability to market new versions of the story." *Stewart,* 495 U.S. at 238.

Still, Nintendo's argument is undermined by the facts. The district court considered the potential market for derivative works based on Nintendo game cartridges and found that: (1) "Nintendo has not, to date, issued or considered issuing altered versions of existing games," *Galoob,* 780 F. Supp. at 1295, and (2) Nintendo "has failed

to show the reasonable likelihood of such a market." *Id.* The record supports the court's findings. According to Stephen Beck, Galoob's expert witness, junior or expert versions of existing Nintendo games would enjoy very little market interest because the original version of each game already has been designed to appeal to the largest number of consumers. Mr. Beck also testified that a new game must include new material or "the game player is going to feel very cheated and robbed, and [the] product will have a bad reputation and word of mouth will probably kill its sales." Howard Lincoln, Senior Vice President of Nintendo of America, acknowledged that Nintendo has no present plans to market such games.

The district court also noted that Nintendo's assertion that it may wish to re-release altered versions of its game cartridges is contradicted by its position in various other lawsuits:

> In those actions, Nintendo opposes antitrust claims by using the vagaries of the video game industry to rebut the impact and permanence of its market control, if any. Having indoctrinated this Court as to the fast pace and instability of the video game industry, Nintendo may not now, without any data, redefine that market in its request for the extraordinary remedy sought herein. . . . While board games may never die, good video games are mortal.

Galoob, 780 F. Supp. at 1295. The existence of this potential market cannot be presumed. *See Sony*, 464 U.S. at 451. *See also Wright v. Warner Books, Inc.*, 953 F.2d 731, 739 (2d Cir. 1991) (affirming district court's finding of no reasonable likelihood of injury to alleged market because

"[p]laintiff has offered no evidence that the project will go forward"). The fourth and most important fair use factor also favors Galoob.

Nintendo's most persuasive argument is that the creative nature of its audiovisual displays weighs against a finding of fair use. The Supreme Court has acknowledged that "fair use is more likely to be found in factual works than fictional works." *Stewart*, 495 U.S. at 237. This consideration weighs against a finding of fair use, but it is not dispositive. *See Sony*, 464 U.S. at 448 (fair use defense is an "equitable rule of reason"). The district court could properly conclude that Game Genie users are making a fair use of Nintendo's displays.

3. *Temporary and permanent injunction*

Galoob has not violated the Copyright Act. Nintendo therefore is not entitled to a temporary or permanent injunction.

AFFIRMED.

RYMER, Circuit Judge, concurring in the judgment:

I concur in the judgment for reasons stated by the district court, *Lewis Galoob Toys, Inc. v. Nintendo of America, Inc.*, 780 F.Supp. 1283 (N.D.Cal.1991).

APPENDIX B

IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF CALIFORNIA

LEWIS GALOOB TOYS, INC., Plaintiff (s), vs. NINTENDO OF AMERICA, INC., Defendant (s).	No. C-90-1440 FMS No. C-90-1586 FMS MEMORANDUM OF DECISION
AND RELATED AND CONSOLIDATED ACTIONS	(Filed JULY 12 1991)

INTRODUCTION

These two consolidated suits test the scope of copyright protection for audio-visual games (video games). Nintendo of America, Inc. ("Nintendo") markets and sells home video games hardware systems and compatible video game cartridges. The audio-visual portions of the game cartridges in suit are protected by registered copyrights held by Nintendo.

Lewis Galoob Toys, Inc. ("Galoob") markets and sells toy products. Galoob has a license to market a video game accessory known as the Game Genie Video Game Enhancer ("Game Genie"), which attaches to a video game cartridge and allows the player to temporarily alter certain attributes of the video game. It is sold for personal consumer use only, not for video game arcades. The Game Genie does not create a separate copy of the original video game, does not make permanent changes to the

original game work, and can only be used when attached to the original game.

Nintendo contends that the Game Genie creates a derivative work as defined in 17 U.S.C. § 101, and that Galoob is therefore either a direct or contributory infringer of Nintendo's copyrights in the original video games in suit.

For the reasons set forth below, the Court finds to the contrary and vacates the pending preliminary injunction forthwith.

SUMMARY OF RULINGS

This case has included one and one-half years of litigation, a two-week trial, and extensive briefing of all issues, both pre- and post-trial. After careful consideration of the evidence and briefing submitted by both sides, and for the reasons set forth below, this Court rules as follows:

1) Use of the Game Genie by consumers to temporarily alter copyrighted video games for their own enjoyment does not create a derivative work under 17 U.S.C. § 101. Because the consumers are not direct infringers, Galoob is not a contributory infringer.

2) In the alternative, even if the Game Genie did create a derivative product, the doctrine of "fair use" enables consumers to use the Game Genie for their personal enjoyment, 17 U.S.C. § 107, and therefore allows Galoob to sell it.

3) Galoob's use of copyrighted video games for purposes of testing or marketing the Game Genie does not violate any of Nintendo's rights under the Copyright Act.

4) On this record, injunctive relief is not appropriate for either side.

PROCEDURAL BACKGROUND

On May 17, 1990, Galoob filed a complaint for declaratory relief against Nintendo, seeking a declaratory judgment that the Game Genie does not violate or contribute to the violation of any of Nintendo's video game copyrights. Galoob also sought an injunction prohibiting Nintendo from interfering with the marketing of the Game Genie, and permanently enjoining Nintendo from modifying the Nintendo Entertainment System ("NES") in order to make it incompatible with the Game Genie.

Nintendo responded by filing its own complaint for an injunction prohibiting Galoob from all facets of marketing the Game Genie, on the grounds that it contributorily infringed Nintendo's registered copyrights in various video games. Nintendo also claimed violation of the trademark laws.

On July 2, 1990, this Court (per Schnacke, J.) issued a preliminary injunction in favor of Nintendo; the injunction was affirmed by the United States Court of Appeals for the Ninth Circuit on February 27, 1991.

Both actions were transferred on July 6, 1990 to the undersigned, who consolidated them and held a bench trial on the sole issue of whether or not the Game Genie infringes any of Nintendo's copyrights. Nintendo claims

that Galoob has wilfully and deliberately infringed, both directly and contributorily, Nintendo's copyrights in its audio-visual game cartridges. Galoob seeks a declaration that use of the Game Genie by individuals in their own homes does not constitute infringement of Nintendo's copyrights, and that Galoob's marketing, distribution, and sale of the Game Genie is therefore not contributory infringement of those copyrights. In addition, Galoob seeks a declaration that its own use of the Game Genie for testing and marketing purposes does not constitute direct infringement.

PARTIES

Galoob is a corporation organized and existing under the laws of Delaware, with its principal place of business in South San Francisco, California. Nintendo is a Washington state corporation, with its principal place of business at Redmond, Washington, and is a wholly owned subsidiary of Nintendo Company, Ltd., of Japan. Galoob and Nintendo are the only two parties to these consolidated actions. No individual consumers of the Game Genie have been named as defendants, although it is their use of the Game Genie that allegedly constitutes the primary infringing activity.

JURISDICTION AND VENUE

This civil action arises under the Copyright Act, as amended 17 U.S.C. § 101 et seq.; the Lanham Act, 15 U.S.C. § 1051 et seq.; and California law. This Court has subject matter jurisdiction pursuant to 17 U.S.C. § 501; 15 U.S.C. § 1121; and 28 U.S.C. § 1331, 1332, and 1338.

Venue is proper in this district pursuant to 28 U.S.C. § 1391 and 1400(a).

FINDINGS OF FACT AND CONCLUSIONS OF LAW

I. PRODUCTS

This suit involves the interplay of three products, the Nintendo Entertainment System, Nintendo copyrighted video games and the Game Genie.

A. The Nintendo Entertainment System

Nintendo markets and sells video game hardware systems. The system is known as the Nintendo Entertainment System ("NES") and is designed for playing video games in the home. Nintendo has sold in excess of 25,000,000 of these systems in the United States. Nintendo also markets and sells video game cartridges, and licenses third parties to market and sell video games which are compatible with Nintendo's hardware. The video games are displayed on a home television.

The NES includes a microprocessor-based console, the "control deck," which houses two processing units: the central processing unit ("CPU"), which controls the overall operation of the system, and the picture processing unit ("PPU"), which generates the pictures for display on the television. The control deck is connected to the television.

B. Video Games

The video games which may be played on the NES control deck are both audio-visual works and computer programs. The audio-visual works and game programs are permanently stored on ROMs (*i.e.*, Read Only Memory chips) contained in game cartridges.

Nintendo owns valid and subsisting registered copyrights in the audio-visual programs contained in many of its video games, including those in suit.

Each game typically has a theme and a goal. For example, a game might consist of the main character's attempt to obtain a certain level of points before he is defeated by hostile forces.[1] In an attempt to reach that point goal, he has a certain number of chances ("lives") in which to [sic] must overcome obstacles, battle adversaries, and travel through various levels ("worlds"). Each time he overcomes an obstacle or reaches a new world, additional points are added to the score. On the other hand, each time he is defeated by a villain and/or obstacle, he loses a chance or life. If he loses all of his lives before obtaining a certain number of points, the game ends, and he must start again.

More than 500 different video games have been produced and offered for sale for use with the NES Control Deck. In addition to those owned and copyrighted directly by Nintendo, hundreds of games have been produced by some 71 other companies. Sixty-three of the

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[1] For reasons that remain obscure, the protagonists are generally male.

non-Nintendo producers of video games have licenses from Nintendo, and an additional eight do not.

Players can buy various devices ("interactive devices") which connect to the NES control deck and allow the player to influence various aspects of the game being played. Changes include speeding up certain aspects of the game, skipping one or more levels of play, etc. Interactive devices which may be used with the NES control deck include devices marketed as the "Control Pad," "NES Advantage," "Power Glove," "NES Max," and "Turbo Blaster." Light guns may also be used by players for playing certain games. Nintendo markets and sells, or licenses others to sell, such interactive devices for use with the NES control deck.

The NES video game cartridges contain two separate memories: one memory (the "program memory") is connected to the CPU when the game cartridge is physically inserted into the control deck; the other memory (the "character memory") is connected to the PPU when the game cartridge is physically inserted into the control deck.

In order to play an NES video game, the player inserts a game cartridge into the control deck. The player begins game play and interacts with the video game by manipulating buttons on the standard controller, which is sold with the NES and which attaches to the control deck.

The game's action is performed on the television screen. Players use the controller (which contains a four-way control pad, for directional control, and four other buttons labeled "start," "select," "A" and "B") to guide

the actions of "their" character in an attempt to reach the game's goal, as described earlier.

The copyrights allegedly infringed in this suit are for the audio-visual portion of the video game cartridges manufactured by Nintendo. The games are only compatible for play on the NES; they have a retail list price of approximately $40 to $50 each.

C. The Game Genie

Galoob is in the business of marketing and selling toy products in the United States. Galoob obtained a license to market the Game Genie from Codemasters Software Co., Ltd., a United Kingdom corporation, and Camerica, Ltd., a Canadian corporation. The Game Genie, the accused product, allows players to alter certain attributes of video games, in ways similar to the interactive devices and published codes described *supra* at 7-8 [B-7] and *infra* at 35 [B-31 to B-32].

The Game Genie can function in combination with any NES-compatible game cartridge. Six licensed producers of copyrighted Nintendo-compatible games, as well as Nintendo itself, are known to object to the use of the Game Genie with their copyrighted games. It is not known whether the nontestifying Nintendo-licensees or the eight nonlicensed producers of NES-compatible games object or consent to the use of the Game Genie with their copyrighted games, nor is it known how many of the games of Nintendo licensees or nonlicensee producers have registered copyrights.

At this time, the Game Genie is configured both electronically and physically to plug into NES control decks and NES-compatible video game cartridges only; it has no other use.

The Game Genie is designed to fit between the NES control deck and NES-compatible video game cartridges. When a Game Genie is used (*i.e.*, when a game cartridge has been attached to a Game Genie and the Game Genie is then inserted into a control deck), it has two modes of operation: a programming or "set-up" mode, and a game play mode.

If the game cartridge is detached from the Game Genie during operation, all audio-visual displays of the game cease. Likewise, if a game cartridge inserted into a control deck without the Game Genie is removed from the control deck, all game audio-visual displays cease. The Game Genie cannot be used unless it is physically attached to a video game cartridge and then inserted into an NES control deck.

During the Game Genie's set-up mode, a display appears on the television screen and the player is presented with the choice of entering from one to three codes into the Game Genie. Each code can be six to eight letters in length, and each letter may be chosen from among sixteen available letters of the alphabet. Although there are billions of possible codes, a maximum of three codes can be entered for any single play of a game. When code selection is complete, the player presses the "select" button on the controller, the set-up mode screens display disappears, and the Game Genie shifts into its "game play mode." In this mode, the game begins, and the

player plays the game with the alterations allowed by the Game Genie codes the player has entered. If no code has been entered, the Game Genie has no influence on game play, and the game plays exactly as it would if no Game Genie were attached.[2]

If the game player inputs one, two, or three codes into the Game Genie, each entered code causes the CPU to receive different data than it would if the Game Genie were not attached and activated by the game player.

Galoob has prepared a booklet intended to be distributed with the Game Genie entitled "Programming Manual and Code Book" ("Code Book"). The Game Genie Code Book instructions expressly encourage players to alter listed codes and to create various effects by programming their own codes. The effects of all codes, whether devised by Galoob or by the players themselves,

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[2] The Game Genie interprets each of the codes a player selects to refer to a particular "address" in the game cartridge program ROM and the data that are stored there. As the game proceeds, the CPU inquiries that are directed to the game cartridge's program ROM pass through the Game Genie. If an inquiry is directed to an address that matches one of the codes the player has selected, the Game Genie substitutes the data it has stored for the data that the game cartridge would otherwise transmit to the CPU. (For example, assume the CPU asks for the initial number of lives and the game cartridge has the number "three" at the address corresponding to initial "lives." If the player has selected a code for six lives, the Game Genie would substitute data signifying six lives and send that data to the CPU.)

Each Game Genie code can substitute only a single byte of data at a single address. Thus, of the million or so inquiries per second that the CPU directs to the game cartridge, the Game Genie can interrupt and change relatively few.

are temporary in nature, and will last only until the player unplugs the game or resets in order to start a new game.

There are approximately 1,660 listed codes in the Game Genie code book, allowing various categories of temporary changes to be created with the use of the Game Genie. Some permit the player to choose where to begin the game, i.e. at a higher level of the game rather than at the beginning. Other codes allow the player to increase or decrease the number of chances the player has to complete the game or the amount of time in which those chances can be exercised. Others allow a player to advance more quickly through the game by skipping certain obstacles.[3]

The Game Genie cannot be used to play or do anything unless a separate game cartridge is also used. It can neither substitute for an NES game cartridge, nor can it reproduce or copy an independent version of the game. The effects of the Game Genie last only for the temporal period in which a particular sequence of play continues. Its effects vanish as the player ends a sequence of play by disconnecting the power to the game or by resetting and starting over. The Game Genie codes cannot change the plot, theme, or characters of any game. The vast majority of the Game Genie codes alter the rules of the game or method of play. *See infra* at 18-19 [B-16 to B-17].

The Game Genie is marketed for use by consumers as an accessory to their home video system. It is not

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[3] Such effects are paralleled by Nintendo's hardware, passwords, and "secrets," discussed *infra* at 35 [B-31 to B-32].

intended to be used in connection with any public performance of a video game, e.g. in an arcade setting. *Cf. Midway Mfg. Co. v. Artic Int'l. Inc.*, 704 F.2d 1009 (7th Cir. 1983), *cert. denied*, 464 U.S. 823 (1983). No evidence was presented of any such actual or potential public performance.

II. SCOPE OF COPYRIGHT PROTECTION

Article I, Section 8, of the Constitution provides: "The Congress shall have Power . . . To promote the Progress of Science and useful Arts by securing for limited Times to Authors and Investors the exclusive Right to their respective Writings and Discoveries." As new technological developments have occurred, Congress has responded by fashioning new rules of copyright.

Copyright protection is statutory, and the judiciary has shown a general reluctance to expand those protections, absent explicit legislative guidance. *See, e.g., Teleprompter Corp. v. Columbia Broadcasting System, Inc.*, 415 U.S. 394, 414 (1974). While there are sound historical and policy reasons for this consistent deference to Congress, Congress cannot immediately respond to each invention that hits the market. The courts must therefore use their best judgment to construe the meaning of certain words consistent with Congressional intent. *Sony Corp. v. Universal City Studios, Inc.*, 464 U.S. 417, 456 (1984).

Copyright protection does not accord a copyright owner complete control over all possible uses of the protected work. As stated in *Sony*, 464 U.S. at 429:

> The monopoly privileges that Congress may authorize are neither unlimited nor primarily

> designed to provide a special private benefit. Rather, the limited grant is a means by which an important public purpose may be achieved. It is intended to motivate the creative activity of authors and inventors by the provision of a special reward, and to allow the public access to the products of their genius after the limited period of exclusive control has expired.

Congress appears to have made reward to Nintendo a consideration of the copyright law, but not the only one.

A. Derivative works

The Copyright Act gives the holder exclusive rights to use and authorize the use of the work in five qualified ways, including the preparation of derivative works based upon the copyrighted work. 17 U.S.C. § 106(2). Nintendo alleges that the Game Genie is a derivative work. This Court does not agree.

Section 101 of the 1976 Copyright Act defines a derivative work as "a work based upon one or more preexisting works such as a translation, musical arrangement, dramatization, fictionalization, motion picture version, sound recording, art reproduction, abridgement, condensation, or *any other form* in which a work may be recast, transformed, or adapted" (emphasis added).

Nintendo relies heavily on *Midway Mfg. Co. v. Artic Int'l., Inc.*, 704 F.2d 1009 (7th Cir. 1983), *cert. denied*, 464 U.S. 823 (1983) in claiming that the Game Genie is a derivative work. That reliance is misplaced. As *Midway* noted, "It is not obvious from [the language of section 101] whether a speeded up video game is a derivative

work." *Id.* at 1014. If it was doubtful as to whether or not the product in that case was a derivative work, the uncertainty is far greater regarding the Game Genie. In *Midway*, the allegedly infringing product was a printed circuit board which could be used to speed up the rate of play – how fast the sounds and images changed – of one of plaintiff's video games ("Galaxian"), licensed for use in a play-for-pay arcade setting. Under those circumstances, the Seventh Circuit found that speeding up that specific game increased the licensee's revenue by making the game more challenging and decreasing the time it took to complete a game, i.e., more games could be played in a given time period, generating more income for the licensee. Acknowledging that the copyright owners of that video game would be anxious to obtain that extra revenue, the court found that commercial licensees were not implicitly authorized to use the speeded up circuit boards; therefore, the suppliers of those circuit boards contributorily infringed because the speeded version of the game was a derivative work. 704 F.2d at 1014.

Based on those facts, *Midway* held that the "amount by which the language of section 101 *must be stretched* to accommodate speeded up video games is . . . within the limits with which Congress wanted the new act to operate." *Id.*, (emphasis added). The result appeared to be based on the equities of that situation. Under those facts, the court was willing to "stretch" the acceptable definition of a derivative work. *Midway's* result, if not its analysis, appears to have turned on the fact that the licensee arcade owner, not the copyright holder, was making money from the public performance of the altered game,

a violation of section 106(4) (copyright holder has exclusive right "to perform the copyrighted work publicly").[4]

The alleged infringer in this case is not a commercial licensee, but rather a consumer utilizing the Game Genie for noncommercial, private enjoyment. Such use neither generates a fixed transferable copy of the work, nor exhibits or performs the work for commercial gain. *See* §§ 102, 106(4).

Whether or not video games modified by the Game Genie constitute derivative works is a difficult question. Viewing the Copyright Act as a whole, however, and considering the policies behind that Act, this Court concludes that inherent in the concept of a "derivative work" is the ability for that work to exist on its own, fixed and transferable from the original work, i.e., having a separate "*form*". *See* § 101 (derivative work definition). The Game Genie does not meet that definition.

As explained *supra*, a Game Genie allows a player to choose one to three modifications in the rules of a game, during a limited sequence of play. Once the Game Genie and its attached game cartridge are disconnected from the NES, or the power is turned off, those changes disappear and the video game reverts to its original form. No independent, fixed work is created.

In construing the phrase "derivative work" in light of technological change which has rendered its literal meaning ambiguous, the Court looks to the "basic purpose" of

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[4] This Court expresses no view as to whether commercial arcade use of the Game Genie would be an unauthorized showing under section 106.

the Copyright Act – balancing a fair return on an author's creative labor against the need for "broad public availability of literature, music, and the other arts." *Twentieth Century Music Corp. v. Aiken*, 422 U.S. 151, 156 (1975). The Game Genie is a tool by which the consumer may temporarily modify the way in which to play a video game, legally obtained at market price. Any modification is for the consumer's own enjoyment in the privacy of the home. Such a process is analogous in purpose, if not in technology, to skipping portions of a book, learning to speed read, fast-forwarding a video tape one has purchased in order to skip portions one chooses not to see, or using slow motion for the opposite reasons. None of those practices permanently modifies or alters the original work, none produces a separate work which can then be transferred in any way, none replaces the original work, and none deprives the copyright holder of current or expected revenue.

Both parties agree that it is acceptable, under the copyright laws, for a noncopyright holder to publish a book of instructions on how to modify the rules and/or method of play of a copyrighted game. Once having purchased, for example, a copyrighted board game, a consumer is free to take the board home and modify the game in any way the consumer chooses, whether or not the method used comports with the copyright holder's intent. The copyright holder, having received expected value, has no further control over the consumer's private enjoyment of that game.

Because of the technology involved, owners of video games are less able to experiment with or change the method of play, absent an electronic accessory such as the

Game Genie. This should not mean that holders of copyrighted video games are entitled to broader protections or monopoly rights than holders of other types of copyrighted games, simply because a more sophisticated technology is involved. Having paid Nintendo a fair return, the consumer may experiment with the product and create new variations of play, for personal enjoyment, without creating a derivative work. *Cf. Midway,* 704 F.2d at 1013-14 (arcade use is a derivative work, because "[v]ideo game copyright owners would like to lay their hands on some of that extra revenue").

For these reasons, this Court finds that the Game Genie does not create a derivative work protected by the copyright laws.

B. Fair use.

Had the Court found that the Game Genie was a derivative work, Galoob would still be exempt from liability under the doctrine of "fair use." In making this finding, the Court has relied extensively on *Sony v. Universal, supra,* as well as the trial court's opinion in that matter.

As the Supreme Court stated in *Sony,* "[a]ny individual may reproduce a copyrighted work for a 'fair use'; the copyright owner does not possess the exclusive right to such a use." 464 U.S. at 433. "The doctrine of fair use allows a holder of the privilege to use copyrighted material in a reasonable manner without the consent of the copyright owner." *Narell v. Freeman,* 872 F.2d 907, 913 (9th Cir. 1989). Determination of fair use requires analysis under an "equitable rule of reason." *Sony,* at 464 U.S. at

448 (quoting H.R. Rep. No. 94-1467, *reprinted in* 1976 U.S. Code Cong. & Admin. News at 5679). "The copyright law, like the patent statutes, makes reward to the owner a secondary consideration." *Sony*, 464 U.S. at 429 (quoting *Fox Film Corp. v. Doyal*, 286 U.S. 123, 127 (1932)).

Sony – the only pronouncement by the Supreme Court on fair use in the contributory infringement context – involved facts analogous to those here. In *Sony*, holders of copyrights for certain television programs sued the manufacturer of the Betamax video tape recorder (video cassette recorder, or VCR) for contributory infringement. Those copyright holders (like Nintendo) sought to enjoin Sony (like Galoob) from manufacturing and selling an electronic device, claiming that purchasers of that device were using it to infringe copyrights. One use of the device was recording unauthorized copies of copyrighted television programs to "time shift" on-the-air broadcasts. The Supreme Court found the consumers' use of Sony's product for time shifting purposes to be a "fair use" of the copyrighted programs.

Fair use is a privilege against a direct infringement claim (17 U.S.C. §107), and is a privilege held in the first instance by the alleged direct infringer – *i.e.*, by the person playing the video game. Just as application of the fair use doctrine in *Sony* resulted in substantial economic gain for Sony and other VCR manufacturers, the fair use doctrine applied to this case will benefit Galoob. *Sony* makes clear, however, that it is the fairness of the *family's* use of its video game, not some evaluation of the commercial "fairness" of Galoob's product, that must guide the Court's analysis.

In examining the fairness of the family's use, the Court is guided statutorily by 17 U.S.C. §107, through which Congress, in 1976, codified the common law doctrine of fair use.[5] Section 107 enumerates four non-exclusive "factors to be considered" in assessing fair use; they are intended to guide but not to limit analysis. H.R. Rep. No. 94-1476 at 5680; *see also Harper & Row Publishers*, 471 U.S. at 539, 560 (1985) (four factors "not meant to be exclusive"). In determining whether the use made of a work in any particular case is a fair use, the factors to be considered shall include:

(1) the purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes;

(2) the nature of the copyrighted work;

(3) the amount and substantiality of the portion used in relation to the copyrighted work as a whole; and

(4) the effect of the use upon the potential market for or value of the copyrighted work.

1. The First Factor: A Family's "Non-Commercial" Home Use Of Its Video Games Creates A Presumption Of Fair Use.

The first factor is "the purpose and character of the use, including whether such use is of a commercial nature

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[5] That statute was merely "intended to restate the present judicial doctrine of fair use, not to change, narrow or enlarge it in any way." H.R. Rep. No. 94-1476, *supra*, at 5680. Congress had "no disposition to freeze the doctrine in the statute, especially during a period of rapid technological change." *Id.*

or is for nonprofit purposes." 17 U.S.C. §107(1). If the consumer were making a commercial or profit-making use of the copyrighted work, that use would be presumptively unfair. *Sony*, 464 U.S. at 449. "The contrary presumption is appropriate here, however, . . . because time-shifting for private home use must be characterized as a non-commercial, nonprofit activity." *Sony*, 464 U.S. at 449. Likewise, a family's use of a Game Genie for private home enjoyment must be characterized as a non-commercial, nonprofit activity. The game owner is simply playing the game purchased for personal enjoyment, not exploiting the game in some commercial venture. The first factor therefore establishes a presumption of fair use, which could be overcome only by Nintendo's direct proof of injury.[6]

The *Midway* decision does not analyze the commercial use of such products *vis-a-vis* private home use. By contrast, this Court finds a convincing and persuasive analogy in the trial court's analysis of legislative intent in *Universal City Studios v. Sony Corp. of America*, 480 F.Supp. 429 (C.D. Cal. 1979). That court, in discussing whether or not home recording of copyrighted works violated the Copyright Act, quoted the following from the House Report accompanying the 1971 Amendment:

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[6] Although Nintendo emphasized the "productive use" doctrine, *Sony* minimized the importance of that doctrine by reversing the Ninth Circuit's conclusion that time-shifting "was not a fair use because it was not a 'productive use.' " *Sony* 464 U.S. at 427; *see also* Fisher, *Reconstructing The Fair Use Doctrine*, 101 Harv. L. Rev. 1661, 1684 (1988) ("The most dramatic change wrought by *Sony* and *Harper & Row* in the fair use doctrine was the subordination of the idea of productivity").

"Specifically, it is not the intention of the Committee to restrain the home recording, from broadcasts or from tapes or records, of recorded performances, where the home recording is for private use and with no purpose of reproducing or otherwise capitalizing commercially on it." H. Rep. No. 487, 92nd Cong., First Sess. 7, *reprinted in* 1971 U.S. Code Cong. & Admin. News at 1566-1572.

Further citations to the Congressional Record acknowledged a reluctance to interpret or enforce the Copyright Act by carrying copyright protection into the home or by banning devices for off-the-air recording. *Id.*, at 445. While the Game Genie is a different device than a video home recorder, it involves the same policy decision, i.e., whether Congress wishes to carry copyright enforcement into the home.

2. The Second Factor: The Published "Nature" Of Video Games Supports Fair Use.

The second factor considers "the nature of the copyrighted work." 17 U.S.C. §107(2). The courts have traditionally inquired whether the work is published, with unpublished works gaining more protection. 3 Nimmer §13.05[A][2], at 13-75 to 13-79. "The fact that a work is unpublished is a critical element of its 'nature'" suggesting that pre-publication exploitation of the work would be unfair. *Harper & Row*, 471 U.S. at 564 (unfair to scoop key excerpts of unpublished manuscript without author's consent). By contrast, Nintendo has already published millions of copies of its games to anyone willing to pay the purchase price. Only after acquiring a published copy of the game may its owner use it in combination with the

Game Genie. The works' published nature supports the fairness of the use.

3. The Third Factor: Because Game Owners Have The Right To Use The Games They Purchase, Their Use Does Not Weigh Against Fair Use.

The third factor in the fair use analysis is the "amount and substantiality of the portion used in relation to the copyrighted work as a whole." 17 U.S.C. §107(3). Again, the *Sony* decision is dispositive. *Sony* recognized that the reproduction of an entire work ordinarily weighs against the claim of fair use. 464 U.S. at 450. In *Sony*, however, because the VCR owner "had been invited to witness [the television program] in its entirety free of charge, the fact that the entire work is reproduced does not have its ordinary effect of militating against a finding of fair use." *Id.* at 449. Likewise, in this action a game owner who has fairly acquired a Nintendo game has a right to use the entire work. The game owner's rights are equal to, if not greater than, those of the user in *Sony*, who did not pay for the product being used. Because the game owner is entitled to use the entire work, no matter what the "amount and substantiality" of his use, the third factor cannot assist Nintendo in overcoming the presumption of fair use.

4. The Fourth Factor: Nintendo Has Not Proven Harm

The last and "undoubtedly the single most important" factor is the "effect of the use upon the potential market for or value of the copyrighted work." *Harper &*

Row, 471 U.S. at 566; 17 U.S.C. §107(4). To defeat fair use under this factor "requires proof either that the particular use is harmful, or that if it should become widespread, it would adversely affect the potential market for the copyrighted work." *Sony*, 464 U.S. at 451.

Nintendo bears the burden of proving that these particular uses will have an adverse effect on the market for the copyrighted Nintendo games. *Sony*, 464 U.S. at 451. It has not met that burden, for the reasons explained below.

a. Nintendo Has Not Shown That The Game Genie Supplants, Rather Than Suppresses, The Market For The Copyrighted Works.

The fourth fair use factor looks primarily to whether a use "supplants any part of the normal market for a copyrighted work." H.R. Rep. No. 83, 90th Congress, 1st Sess. 33, 35 (1967), as quoted in *Marcus v. Rowley*, 695 F.2d 1171, 1177 (9th Cir. 1983). Nintendo cannot demonstrate that use of the Game Genie "*fulfills the demand* for the original" of the copyrighted games at issue. *Fisher v. Dees*, 794 F.2d 432, 438 (9th Cir. 1986) (emphasis in original). Widespread use of the Game Genie cannot supplant the market for the games in suit. The Game Genie cannot operate without a game cartridge. Significantly, Nintendo does not contend that families will buy fewer new games because they are using their Game Genie with old ones. The Game Genie does not compete for sales with the original copyrighted works for which Nintendo claims infringement.

Nintendo's claim is that the Game Genie will *indirectly* harm its overall market because it will make people enjoy their games less, and thereby generally reduce demand for Nintendo's copyrighted games. Nintendo had the burden of proof on that issue and failed to meet it.

A fair use will frequently suppress demand for a work, but as long as it does so without supplanting demand, the indirect detrimental effect on the market is not the subject of copyright protection. An obvious example is an unfavorable book or movie review containing quotations from the copyrighted work, along with criticism which may suppress demand. This capacity to injure does not impede a finding of fair use. *See Fisher v. Dees*, 794 F.2d at 438. Another example is a parody, which "may quite legitimately aim at garroting the original, destroying it commercially as well as artistically." *Id.* at 437. As the Ninth Circuit holds, however, "the economic effect of [the use] with which we are concerned is not its potential to destroy or diminish the market for the original – any bad review can have that effect – but rather whether it *fulfills the demand* for the original. Biting criticism suppresses demand; copyright infringement usurps it." *Id.* at 438 (emphasis in original).

The Second Circuit applied this principle in *Consumers Union of U.S. Inc. v. General Signal Corp.*, 724 F.2d 1044 (2d Cir. 1983), *cert. denied* 469 U.S. 823 (1984). There, defendant's advertisements quoted the favorable rating of its product by Consumer Reports, a copyrighted magazine. In an argument reminiscent of Nintendo's claim that it will lose "goodwill" as a result of the Game Genie, Consumer Reports alleged that the value of its magazine

was diminished because its reputation for independence would suffer as a result of being perceived as endorsing defendant's product. The Second Circuit rejected plaintiff's argument in no uncertain terms:

> The Copyright Act was not designed to prevent such indirect negative effects of copying. The fourth factor is aimed at the copier who attempts to usurp the demand for the original work. The copyright laws are intended to prevent copiers from taking the owner's intellectual property, and are not aimed at recompensing damages which may flow indirectly from copying.

724 F.2d at 1051 (citations omitted).

Nintendo argues that its market may be affected by suppression of demand rather than supplanting of it. That injury, even if it were likely, does not defeat fair use.

b. Nintendo Has Not Shown Any Injury To The Relevant Market For The Copyrighted Works.

Nintendo has likewise failed to prove an adverse effect on the relevant market for the copyrighted works at issue. Most of Nintendo's original copyrighted works are no longer on the market, including the vast majority for which the Galoob Code Book lists codes. The Game Genie cannot affect sales of products no longer available.[7]

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[7] Furthermore, even if the Game Genie published code books for up-to-the-minute games, Nintendo has not shown that consumers would be *less* likely to buy the games simply because code books for current games were available.

Nintendo also seeks relief for harm that may occur in the future, on the grounds that the Game Genie may decrease demand for sequels or slightly altered versions of Nintendo games. Nintendo has not, to date, issued or considered issuing altered versions of existing games. Nintendo argues, however, that should such a market develop within the copyright period, it is entitled to decide if such games are appropriate and to reap the resulting revenues. In theory, Nintendo is correct; however, it has failed to show the reasonable likelihood of such a market. Nintendo's video games are expensive toys; each retails in the $40 to $50 range. There is neither evidence nor reason to believe that a consumer who owns the original game would invest a similar amount in a slight variation thereof.

In addition, Nintendo's assertion that it may wish to re-release altered versions of the games in suit 10, 20 or 30 years from now (much as Parker Brothers recently did with "Monopoly") is at odds with the position taken by Nintendo in various other lawsuits pending before this Court. In those actions, Nintendo opposes antitrust claims by using the vagaries of the video game industry to rebut the impact and permanence of its market control, if any. Having indoctrinated this Court as to the fast pace and instability of the video game industry, Nintendo may not now, without any data, redefine that market in its request for the extraordinary remedy sought herein. Nintendo has failed to show any harm to the present market for its copyrighted games and has failed to establish the reasonable likelihood of a potential market for slightly altered versions of the games at suit. While good board games may never die, good video games are mortal.

c. Nintendo Has Not Shown That Any Uses Of The Game Genie Would Have A Deleterious Effect On Sales.

The only empirical evidence of market reaction to the Game Genie is the Canadian study, which indicates that the Game Genie will enhance, not detract from, Nintendo's sales. *See Sony*, 464 U.S. at 423-24, 452-53, n.36-37 (relying on consumer survey to determine market impact). During February of this year, 6 months after introduction of the Genie in Canada, a market research firm polled 300 Canadian owners of the Game Genie, aged 8 or older. The survey failed to reveal any detrimental effect to the Nintendo market.[8]

Nintendo objected to the survey on various grounds, including the fact that Canadians, not Americans, were polled. Nintendo's criticisms go to the weight of the survey, not its admissibility. Nintendo offered no meaningful evidence that consumer research in the United States is performed differently from that conducted in Canada, or that consumers who play video games in the United States have different tastes or attitudes than do video game players in Canada. Nintendo has access to its own sales data for the nine months Game Genie has been

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[8] 72% of the respondents believe that the Game Genie makes video games more fun. 45% enjoy playing their games more than before they had a Game Genie, 53% enjoy their games the same, only 2% enjoy their games less.

52% are more interested in buying new video games since they have had the Game Genie, and only 2% are less interested.

29% of the respondents play their Nintendo games more often than before they had a Game Genie, 67% play their games the same amount, and only 4% play their games less often.

on sale in Canada. Nevertheless, it produced neither statistical evidence of lost sales nor any Canadian retailer testimony of adverse impact from Game Genie on the demand for Nintendo games. The Court is influenced by Nintendo's failure to proffer any empirical evidence of a negative market impact or potential impact from the Game Genie. The only reasonable inference for the trier of fact is that no such impact exists.

Nintendo failed to take advantage of other opportunities to show lost sales. For instance, Nintendo uses ongoing focus groups as part of its continuing marketing and quality control. It could have used those groups to test the effect of Game Genie use on attitudes about Nintendo games. It did not. Since Nintendo had the incentive, opportunity and ability to proffer such evidence, its failure to do so gives rise to the contrary inference, i.e., that there are no material differences between the Canadian and American markets, and that the Game Genie has had no detrimental impact on Nintendo's sales in Canada.

Galoob's evidence on sales was persuasive. In additional [sic] to the survey data, Galoob proffered expert testimony from Glenn Rubenstein, a member of Nintendo's "target" market (males between 8 and 14 years old). He has been a serious player of video games for several years and spends as many as 30 hours per week with this avocation. He has written numerous magazine and newspaper articles critiquing various video games, including Nintendo's. Rubenstein's opinion is that the Game Genie would encourage rather than discourage enthusiasm over video games in general, because it allows players to explore new ways of playing a game,

thereby making the game more accessible to players of differing abilities. This would likely increase the use of a video game in a multi-player family, providing more value per consumer dollar. The Court found his testimony more convincing than that of Nintendo's employees and experts.

For these reasons, the Court is unconvinced that the Game Genie will decrease Nintendo's sales.

d. Harm To The Nintendo Culture Is Not Cognizable Under Copyright Law.

Nintendo's main objection to and claimed damage from the Game Genie is the potential detriment to the "Nintendo Culture," a concept discussed at length by Nintendo's attorneys and witnesses. This culture, the apex of Nintendo's marketing strategy, is a mind-set intentionally created by Nintendo in its consumers. Like most cults, fads or addictions, it thrives when fueled by constant peer pressure. Nintendo fears that, by allowing users to change the rules of Nintendo games, the Game Genie will upset the inculturation process that Nintendo has designed into its products, thereby lessening the value of membership in "the culture" and reducing product loyalty. Having rescued the video game industry from the shambles of the early 1980's, Nintendo argues that it is now entitled to decide how its games should be enjoyed, by whom, and under what circumstances, even after the consumer has paid full price.

According to Nintendo, the Game Genie will harm the Nintendo culture in two distinct ways. First, it argues that the use of the Game Genie allows players to modify

Nintendo's carefully crafted games in such a way that ultimate user satisfaction will be diminished, leading to an over-all decline in the video game industry. Nintendo called several witnesses, including its own game designers and two behavior modification psychologists, each of whom opined that 1) Nintendo's games are designed to provide ultimate satisfaction; 2) tampering with Nintendo's design in any way thwarts the "challenge of the game", or its "playability", thereby resulting in lesser enthusiasm for video games in general, and Nintendo games in particular; and 3) this reduced enjoyment may lead to the drastic decline in the video game market similar to that which occurred in the early 1980's, even if it does not diminish revenue for the particular games in suit.[9] Neither the Nintendo employees nor the behavioralists provided empirical data upon which to

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[9] For instance, Nintendo's expert Professor Gregory Loftus declared:

> The majority of Nintendo's players belong to a loose social confederation that might collectively be called the 'Nintendo culture.' This culture includes talking about Nintendo video games with friends, comparing scores and achievements, . . . and getting high scores published. The operation of the Nintendo culture rests entirely on the games being challenging. . . . Being part of the Nintendo culture would no longer be enjoyable or meaningful, and sales of Nintendo video games would decline. . . . Were Game Genie use [sic] to become prevalent, the photographing of a particular screen [to show a high score] would not be indicative of any skill or achievement, and this socially-reinforcing practice would fall by the wayside.

G. Loftus narr. stmnt at 3; *see also* P. Main narr. stmnt at 3; H. Lincoln narr. stmnt at 17; H. Phillips narr. stmnt at 6.

support the claim that Nintendo is better able to judge when a player is having fun than is the player herself.

There is no doubt that Nintendo revitalized the video game industry, nor is there any doubt that it produces a carefully controlled and well-made product which is impressively marketed. Nevertheless, those achievements do not give Nintendo a right to expand its copyright protection beyond that granted under the copyright laws.

Moreover, Nintendo's argument that any device that makes game play easier will injure its market for video games is undermined by its own behavior. It is significant that Nintendo markets publications and devices that make similar modifications available. For example, Nintendo publishes "passwords" enabling game owners to start game play at different levels or worlds and with different powers. Nintendo Power magazine[10] contains "secret" codes which allow game owners to skip to portions of games they enjoy, or to gain additional lives. Nintendo also markets an interactive device called the "NES Advantage," which can substitute for the controller included with the standard Nintendo system. Among the advantages that NES Advantage provides are the options of slow motion play and extra fire power to make game play easier. These are similar to options that Game Genie makes available to players. The fact that Nintendo offers consumers the ability to temporarily alter the images of their games undercuts Nintendo's arguments that such alterations are likely to create disincentive for the purchase of additional video games. If Nintendo believed

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[10] The magazine is copyrighted by Nintendo of America.

this, it would not market accessories which it feared would lead to the demise of its multibillion dollar share of the video game industry.[11]

Nintendo has attempted to achieve in this litigation what it could not achieve in the market – the "exclusive right to modify game play as it alone sees fit and to maintain game play in its original state." Nintendo's Reply Memo. In Supp. Prelim. Injunc. at 17-18. This Court does not interpret the Copyright Act as bestowing such broad monopoly powers. The Copyright Act protects authorship, not market psychology.

5. Fair Use Summarized.

To summarize the four fair use factors, then, the non-commercial nature of the player's home use of the Game Genie creates a presumption of fair use under *Sony*. The

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[11] Indeed, Nintendo's chief marketing officer, Peter Main, contradicts the theory that Nintendo asserts in this case. In the analysis he presented at a 1989 Nintendo sales meeting, Mr. Main stated:

> Let's not forget that key category called accessories. Good accessories are important for several reasons including . . . because *they give added value to our software by giving a NES player a whole new experience and sense of game play* when he replays a piece of software with one of the accessor[ies]. *And all that adds up to increased consumer satisfaction which brings them back for more.* Two of the strongest performers in this regard are the Max and Advantage controllers. . . .

Text of speech delivered at the 1989 SCES sales meeting, June 2, 1989, Ex. G-364 (emphasis added).

published nature of video games supports the fairness of a consumer's transitory alterations of those images. Because the game owner has the indisputable right to use his or her entire game, the amount of his or her use cannot weigh against fairness. Further, Nintendo has failed, in three respects, to carry its burden to prove injury: It has not shown that any use supplants demand for its works, that any actual or reasonably likely market is injured, or that use of the Game Genie in ways that arguably infringe Nintendo's copyrights would diminish the overall demand for Nintendo games. Lacking proof that either actual or likely markets for the copyrighted works are liable to be affected, Nintendo has failed to satisfy the fourth fair use factor.

In short, even were the Court to find that the use of the Game Genie allows players to produce a derivative work, the shield of fair use is available and would provide a complete defense to any claim of direct infringement against the game players. Absent direct infringement, there is no contributory infringement.

III. DIRECT INFRINGEMENT

Because the Game Genie does not create a derivative work when used in conjunction with a copyrighted video game, Galoob does not "authorize the use of a copyrighted work without actual authority from the copyright owner." *Sony*, 464 U.S. at 435 n.17. All of the cases Nintendo cites on this point deal with unauthorized public performances for profit, § 106(4), not private, non-commercial use. Further, Galoob is not liable as a direct infringer for testing, demonstrating, and marketing the

Game Genie, or for developing codes for use with the Game Genie.

IV. INJUNCTIVE RELIEF

Even had this Court found that the Game Genie infringes Nintendo's copyrights, a permanent injunction in favor of Nintendo would not be the appropriate remedy because:

1) Any presumption of immediate and irreparable harm resulting from the alleged infringement was rebutted;

2) The presence of the Game Genie in the market benefits the public by expanding personal consumer utilization of purchased games; and

3) Assuming infringement, adequate remedies exist at law.

CONCLUSION

For the reasons stated above, the Court orders declaratory relief as follows: (1) the use of a Game Genie by consumers, for non-commercial use, does not violate Nintendo's rights under the Copyright Act of 1976; and (2) Galoob is neither a contributory nor a direct infringer.

The pending preliminary injunction enjoining Galoob from exercising all commercial activities associated with its license for the Game Genie should be and is hereby DISSOLVED.

This Court will not stay the lifting of the injunction, pending appeal, because further equitable relief for Nintendo is unwarranted. Any request for a stay should be addressed to the Ninth Circuit Court of Appeals.

The parties are ordered to appear before this Court on Monday, August 19, 1991 at 2:30 p.m., to discuss further proceedings in this matter.

SO ORDERED.

DATED: July 12, 1991

/s/ Fern M. Smith
FERN M. SMITH
United States District Judge

APPENDIX C

UNITED STATES COURT OF APPEALS
FOR THE NINTH CIRCUIT

LEWIS GALOOB TOYS, INC., Plaintiff-Appellee, v. Defendant-Appellant.	CA No. 91-16205 DC No. CV-90-1586 FMS
NINTENDO OF AMERICA, INC., Plaintiff-Appellant, v. LEWIS GALOOB TOYS, INC., Defendant-Appellee.	DC No. CV-90-1440 FMS (N.D. of California) ORDER (Filed OCT 20 1992)

Before: FARRIS, RYMER, Circuit Judges and KENYON,* District Judge.

The panel as constituted in the above case has voted to deny the petition for rehearing. Judges Farris and Rymer have voted to reject the suggestion for a rehearing en banc and Judge Kenyon recommends rejection.

The full court has been advised of the suggestion for an en banc hearing, and no judge of the court has requested a vote on it. Fed. R. App. P. 35(b).

The petition for rehearing is denied and the suggestion for a rehearing en banc is rejected.

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*Honorable David V. Kenyon, United States District Judge for the Central District of California, sitting by designation.

APPENDIX D

Relevant Provisions of Title 17 United States Code

§ 101. Definitions

As used in this title, the following terms and their variant forms mean the following:

. . .

"Audiovisual works" are works that consist of a series of related images which are intrinsically intended to be shown by the use of machines or devices such as projectors, viewers, or electronic equipment, together with accompanying sounds, if any, regardless of the nature of the material objects, such as films or tapes, in which the works are embodied.

. . .

"Copies" are material objects, other than phonorecords, in which a work is fixed by any method now known or later developed, and from which the work can be perceived, reproduced, or otherwise communicated, either directly or with the aid of a machine or device. The term "copies" includes the material object, other than a phonorecord, in which the work is first fixed.

. . .

A "derivative work" is a work based upon one or more preexisting works, such as a translation, musical arrangement, dramatization, fictionalization, motion picture version, sound recording, art reproduction, abridgment, condensation, or any other form in which a work may be recast, transformed, or adapted. A work consisting of editorial revisions, annotations, elaborations, or

other modifications which, as a whole, represent an original work of authorship, is a "derivative work".

. . .

A work is "fixed" in a tangible medium of expression when its embodiment in a copy or phonorecord, by or under the authority of the author, is sufficiently permanent or stable to permit it to be perceived, reproduced, or otherwise communicated for a period of more than transitory duration. A work consisting of sounds, images, or both, that are being transmitted, is "fixed" for purposes of this title if a fixation of the work is being made simultaneously with its transmission.

. . .

"Literary works" are works, other than audiovisual works, expressed in words, numbers, or other verbal or numerical symbols or indicia, regardless of the nature of the material objects, such as books, periodicals, manuscripts, phonorecords, film, tapes, disks, or cards, in which they are embodied.

"Motion pictures" are audiovisual works consisting of a series of related images which, when shown in succession, impart an impression of motion, together with accompanying sounds, if any.

. . .

"Phonorecords" are material objects in which sounds, other than those accompanying a motion picture or other audiovisual work, are fixed by any method now known or later developed, and from which the sounds can be perceived, reproduced, or otherwise communicated, either directly or with the aid of a machine or device. The

term "phonorecords" includes the material object in which the sounds are first fixed.

. . .

"Sound recordings" are works that result from the fixation of a series of musical, spoken, or other sounds, but not including the sounds accompanying a motion picture or other audiovisual work, regardless of the nature of the material objects, such as disks, tapes, or other phonorecords, in which they are embodied.

. . .

§ 102. Subject matter of copyright: In general

(a) Copyright protection subsists, in accordance with this title, in original works of authorship fixed in any tangible medium of expression, now known or later developed, from which they can be perceived, reproduced, or otherwise communicated, either directly or with the aid of a machine or device. Works of authorship include the following categories:

(1) literary works;

(2) musical works, including any accompanying words;

(3) dramatic works, including any accompanying music;

(4) pantomimes and choreographic works;

(5) pictorial, graphic, and sculptural works;

(6) motion pictures and other audiovisual works; and

(7) sound recordings.

. . .

§ 106. Exclusive rights in copyrighted works

Subject to sections 107 through 118, the owner of copyright under this title has the exclusive rights to do and to authorize any of the following:

(1) to reproduce the copyrighted work in copies or phonorecords;

(2) to prepare derivative works based upon the copyrighted work;

(3) to distribute copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease, or lending;

(4) in the case of literary, musical, dramatic, and choreographic works, pantomimes, and motion pictures and other audiovisual works, to perform the copyrighted work publicly; and

(5) in the case of literary, musical, dramatic, and choreographic works, pantomimes, and pictorial, graphic, or sculptural works, including the individual images of a motion picture or other audiovisual work, to display the copyrighted work publicly.

§ 107. Limitations on exclusive rights: Fair use

Notwithstanding the provisions of section 106, the fair use of a copyrighted work, including such use by reproduction in copies or phonorecords or by any other means specified by that section, for purposes such as criticism, comment, news reporting, teaching (including multiple copies for classroom use), scholarship, or research, is not an infringement of copyright. In determining whether the use made of a work in any particular case is a fair use the factors to be considered shall include –

(1) the purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes;

(2) the nature of the copyrighted work;

(3) the amount and substantiality of the portion used in relation to the copyrighted work as a whole; and

(4) the effect of the use upon the potential market for or value of the copyrighted work.

§ 202. Ownership of copyright as distinct from ownership of material object

Ownership of a copyright, or of any of the exclusive rights under a copyright, is distinct from ownership of any material object in which the work is embodied. Transfer of ownership of any material object, including the copy or phonorecord in which the work is first fixed, does not of itself convey any rights in the copyrighted work embodied in the object; nor, in the absence of an agreement, does transfer of ownership of a copyright or

of any exclusive rights under a copyright convey property rights in any material object.

§ 501. Infringement of copyright

(a) Anyone who violates any of the exclusive rights of the copyright owner as provided by sections 106 through 118, or who imports copies or phonorecords into the United States in violation of section 602, is an infringer of the copyright.

. . .